

# One Bank One UniCredit

2017

UniCredit S.p.A.  
Reports and Accounts

Banking that matters. |







Banking that matters. |  **UniCredit**

# One Bank, One UniCredit.



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

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## Notes

The following conventional symbols have been used in the tables:

- a dash (-) indicates that the item/figure is inexistent;
- two stops (.), "n.s." or "n.m." when the figures do not reach the minimum considered significant or are not in any case considered significant;
- "n.a." indicates that the figure is not available.

Any discrepancies between data are solely due to the effect of rounding.

# Banking that matters.



In this era of unprecedented change customers are looking for companies they can trust and that can play a tangible positive role in their everyday lives. UniCredit has a simple and successful Pan European Commercial banking model delivering relevant solutions to the real needs and wants of today's customers.

# Introduction

<b>Board of Directors, Board of Statutory Auditors, and External Auditors as at 31 December 2017</b>	<b>7</b>
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# Strengthen and optimise capital.



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



# Board of Directors, Board of Statutory Auditors and External Auditors as at 31 December 2017

	<b>Board of Directors</b>
Giuseppe Vita	Chairman
Vincenzo Calandra Buonauro	Deputy Vice Chairman
Jean Pierre Mustier	CEO
Mohamed Hamad Al Mehairi	Directors
Sergio Balbinot	
Cesare Bioni	
Henryka Bochniarz	
Martha Boeckenfeld	
Alessandro Caltagirone	
Luca Cordero di Montezemolo	
Lucrezia Reichlin	
Fabrizio Saccomanni <sup>(*)</sup>	
Clara-C. Streit	
Paola Vezzani	
Alexander Wolfgring	
Anthony Wyand	
Elena Zambon	
Gianpaolo Alessandro	Company Secretary
	<b>Board of Statutory Auditors</b>
Pierpaolo Singer	Chairman
Antonella Bientinesi <sup>(**)</sup>	Standing Auditors
Angelo Rocco Bonisconi	
Benedetta Navarra	
Guido Paolucci <sup>(***)</sup>	
Francesco Giordano	Manager in charge with preparing the financial reports
Deloitte & Touche S.p.A.	External Auditors

(\*) Co-opted on 8 November 2017 in place of Mr. Fabrizio Palenzona.

(\*\*) Ms. Antonella Bientinesi, already an Alternate Auditor, replaced, as per article 2401 of Italian Civil Code, Standing Auditor Maria Enrica Spinardi who resigned from his office with effect from 26 October 2017, and confirmed by the Shareholders' Meeting on 4 December 2017.

(\*\*\*) Mr. Guido Paolucci, already an Alternate Auditor, replaced, as per article 2401 of Italian Civil Code, Standing Auditor Enrico Laghi who resigned from his office with effect from 2 May 2017, and confirmed by the Shareholders' Meeting on 4 December 2017.

## UniCredit S.p.A.

A joint stock company

**Registered Office and Head Office:** Piazza Gae Aulenti, 3 - Tower A - 20154 Milano

Share capital €20,880,549,801.81 fully paid in

Registered in the Register of Banking Groups and Parent Company of the UniCredit Banking Group, with cod. 02008.1

Cod. ABI 02008.1

Fiscal Code, VAT number and Registration number with the Company Register of Milan-Monza-Brianza-Lodi: 00348170101

Member of the National Interbank Deposit Guarantee Fund and of the National Compensation Fund

Stamp duty paid virtually, if due - Auth. Agenzia delle Entrate, Ufficio di Roma 1, No.143106/07 of 12.21.2007



# Chairman's message

“Today, UniCredit is a leading pan-European bank, well-equipped to address the future, and I thank all those who helped us achieve this result.”

**Giuseppe Vita**  
Chairman

## Dear Shareholders,

after six years as Chairman of UniCredit, I will be stepping down at the next Annual General Meeting, confident in the knowledge that UniCredit today is a much changed and stronger Group, poised for future growth and success. During my time here, the whole banking sector has faced unparalleled challenges and undergone a significant evolution. UniCredit has seized on this and taken the opportunity to undertake an in-depth long-term transformation of the Group, in order to create a true pan-European winner.

Having worked closely with all the UniCredit teams, I have developed an enormous respect and appreciation for the people within the Group. Thanks to them, UniCredit will be able to achieve its remarkable potential. The work of UniCredit's teams, under the strong leadership of our CEO Jean Pierre Mustier has made our Group one of Europe's most solid financial institutions. I would like to sincerely thank Jean Pierre for accelerating the transformation of our business model at a time when every company, including banks, must evolve. I greatly appreciate his constructive work

with the board to define a clear long-term strategy, which has been well-received by investors and all other stakeholders.

The past year saw an improved economic situation at both global and European level, and although interest rates remained persistently low, UniCredit experienced positive dynamics across the Group. Thanks to decisive actions, the Group is now significantly better positioned to address the future.

In 2017, UniCredit launched and began implementing its Transform 2019 plan, the start of a long-term process to ensure UniCredit becomes a true pan-European winner. I am pleased that the plan is already delivering tangible results by improving both our Group's profitability and capital base, by changing the way we work and by allowing our teams to focus even more on our customers. We redefined UniCredit's perimeter, while remaining one of the few true pan-European banks with a global reach. At the same time, we greatly reduced our portfolio of impaired loans, significantly improving our risk profile. The Group is making decisive strides forward in the area of technology, thanks to a series of key investments that will allow us to stay ahead of our customers' evolving behaviors and needs.

UniCredit's decisive actions benefitted all the Group's stakeholders and the entire Italian banking system as well as Italy as a whole.

Our progress has allowed us to announce a gradual increase of our dividend as of financial year 2019. In our dividend policy, we have taken into account the evolving regulatory framework, current monetary policies and the changing competitive scenario. Even as these factors have exerted greater pressure on the profitability of our sector, we are confident we have taken the best decisions for our investors, especially all our long-term shareholders.

We have charted a clear course toward change, and our progress was accelerated in 2017 by two extraordinary shareholders' meetings, which lay the groundwork for a new, stronger UniCredit.

The first meeting, in January 2017, saw the approval of the largest capital increase in history by a company based in Italy. I thank you for this act of trust in the bank, which helped us plan for the future with rigor and determination.

The second meeting, in December 2017, allowed for the improvement of UniCredit's governance, delivering far-reaching positive implications for the bank. The decision at that December meeting to empower the Board of Directors to submit its own list of candidates, to increase the number of board members drawn from the second list of candidates from one to two, to eliminate the 5 percent limit on voting rights, and to convert savings shares into ordinary shares aligned the Group with international best practices.

Among other notable changes was the cooptation of Fabrizio Saccomanni to our Board of Directors. I warmly welcome him to the board and I am certain that UniCredit will greatly benefit from his outstanding experience in the banking sector and his in-depth knowledge of European regulatory regimes.

These changes, like the others we have made in recent years, bring us closer to our ultimate goal: to make UniCredit a more efficient, more flexible and more profitable bank, able to seize opportunities to create sustainable value.

In light of what we have achieved and what we intend to accomplish, I am confident that the future will bring benefits to our shareholders and to all UniCredit's stakeholders. Thanks to our people, our bank possesses extraordinary strengths. Together, we will successfully ensure UniCredit is and remains a true pan-European winner.

Sincerely,

**Giuseppe Vita**  
Chairman  
UniCredit S.p.A.





# Chief Executive Officer's message

“We are transforming through decisive actions. Everything we do is designed to make UniCredit a true pan European Winner.”

**Jean Pierre Mustier**  
Chief Executive Officer

## Dear Shareholders,

I would like to thank you for your ongoing support during our transformation. At UniCredit, we are taking decisive actions to become more competitive and build a strong, sustainable Bank, poised for future growth. We have executed on all our commitments in 2017, including a successful €13bn capital increase and the disposals of Pioneer Investments and Bank Pekao stakes. We concluded FINO Phase 1, with the sale of a €17.7bn portfolio. Everything we do is designed to make UniCredit a true pan European Winner.

Our strategy is to be One Bank, One UniCredit: a simple, successful, pan European commercial bank, with a fully plugged in CIB, delivering a unique Western, Central and Eastern European network to our extensive client franchise.

This strategy is long-term. What we are doing today to implement Transform 2019 - our strategic plan - is laying the groundwork for the future. It is changing the way we work to anticipate our clients' medium-term evolution, including their use of multiple channels.

Our investments in digital aim to improve the customer experience as we continue to optimise our processes and our cost base. New commercial dynamics are driving how we train and develop our people.

Our management is clear on this vision and their actions are underpinned by a strict long-term incentives structure based on the plan's key performing indicators. All our people are focused on the ongoing execution of Transform 2019. It is their energy, commitment and hard work which allow UniCredit to deliver tangible results.

As presented to investors at the 2017 Capital Markets Day in December, our performance is fully on track and we have confirmed all the Transform 2019 key targets, with a better risk profile and an improved dividend payout.

We have **strengthened our capital position**, resulting in a lower SREP Pillar 2 Requirement and an S&P upgrade to a BBB rating with a stable outlook. We have confirmed our 2019 CET1 ratio target whilst anticipating additional regulatory headwinds during the plan period. Post 2019, the CET1 ratio will remain above 12.5 per cent, thanks to an organic capital generation that will fully absorb the expected regulatory impacts.

In terms of **asset quality**, we signed binding agreements to reduce our stake in FINO to below 20 per cent. A more disciplined risk management strategy and underwriting processes are driving significant improvements in all our asset quality metrics. Finally, as announced, we are improving on our original Group Gross NPEs' target, cutting a further €4.0bn by the end of 2019. The full rundown of the Non Core portfolio, which will occur by end 2025, is entirely self-funded.

In terms of **transforming our operating model**, we have confirmed our overall revenues and cost targets. Our FTE and branch reductions are ahead of schedule and our digital and IT transformation is fully on track.

We continue to **maximise commercial bank value**, with the ongoing transformation resulting in higher productivity. Our activities in Western Europe continue to benefit from the revamped

network with new service models for retail and SME customers as well as a strong multichannel strategy. Cost reductions are progressing according to plan. In two other core divisions, CEE and CIB, we have further strengthened our leadership positions while keeping a strong focus on risk.

Finally, In terms of **adopting a lean but steering centre**, decisions taken at our latest EGM concerning, for example, a simplified share structure, position us as best in class in terms of European corporate governance.

Finally, on behalf of the Board of Directors and the whole Group, I would like to extend a special thanks to Giuseppe Vita, whose successful tenure as the Chairman of UniCredit is coming to a close. Giuseppe's significant contributions over the past six years have been very precious to our development. His vision and support have enabled UniCredit to grow into one of the few truly pan European commercial banks.

Sincerely,

**Jean Pierre Mustier**  
Chief Executive Officer  
UniCredit S.p.A.



# Note to the Report on Operations and Company Financial Statements

## General aspects

UniCredit S.p.A. financial statements as at 31 December 2017 were drafted in accordance with the IAS/IFRS international accounting standards, in compliance with the instructions of Banca d'Italia in circular No.262 of 22 December 2005 (fourth update dated 15 December 2015). These instructions are binding for the accounts tables and the methods of completion, as well as for the minimal content of the notes to the accounts.

The financial statements comprise the Balance Sheet, the Income Statement, the Statement of Comprehensive Income, the Statement of changes in Shareholder's Equity, the Cash Flow Statement, the Notes to the Accounts as well as a Report on operation, the economic results achieved, the Bank's financial situation and Annexes.

This report also includes:

- the Annual Financial Statements Certification pursuant to Art.81-ter of Consob Regulation No.11971/1999, as amended;
- the Report of the Board of Statutory Auditors pursuant to Art.153 of Legislative Decree No.58/1998;
- the Independent Auditor's Report pursuant to Art.14 of Legislative Decree No.39 of 27 January 2010 and Art.10 of the EU Regulation No.537/2014.

UniCredit's website also contains the press releases relating to the main events of the period, the market presentation of Group results and UniCredit group Disclosure (Pillar III).

For the non-financial information refer to the Integrated Report published on the company website.

Any discrepancy between data disclosed in this report are solely due to the effect of rounding.

## General principles followed in the preparation of the Report on Operations

To further illustrate the results for the period, the Report on Operations includes the reclassified balance sheet and income statement. The reconciliation with the primary statements, as required by Consob Notice No.6064293 of 28 July 2006, is presented in Annex 1.

The Report on Operations includes financial information, *inter alia* Highlights, Reclassified Accounts and their Quarterly Figures, UniCredit Share, as well as a comment on the Results of the year. In order to provide further details, about the performance achieved by the Company, this information is supported by some alternative performance indicators ("API") as: Net bad loans to customers/Loans to customers, Net Non-Performing loans to customers/Loans to customers.

Although some of this information, including certain APIs, is neither extracted nor directly reconciled with Company Financial Statements, the Report on Operations and Annexes provide explanatory descriptions of the contents and, in case, eventually the calculation methods used, in accordance with European Securities and Markets Authority Guidelines (ESMA/2015/1415) of 5 October 2015.

## Reconciliation principles followed for the Reclassified Balance Sheet and Income Statement

The Reclassified Balance Sheet and Income Statement have substantially led to the restatement, of the accounting items as shown in the reconciliation tables annexed to this report, mainly relating to:

### Balance Sheet

- the aggregation of "Financial assets at fair value through profit or loss", "Available-for-sale financial assets", "Held-to-maturity investments" and "Equity investments" as "Financial investments";
- the grouping of a single item called "Hedging instruments", in both the assets and liabilities of the Financial Statements of the "Hedging Derivatives" and "Changes in fair value of portfolio hedged items";
- the combination of the "Deposits from customers" and "Debt securities in issue" items into a single item "Deposit from customers and debt securities in issue";
- the inclusion of the financial statements items "Provisions for Employee severance pay" into "Other liabilities".

## Income Statement

- the exclusion among “Dividends and other income” of dividends from held for trading equity investments classified under “Net trading income”;
- the inclusion in item “Net fees and commissions” of the cost relating to outsourced services for the management and recovery of Non-Performing loans included in item “Administrative costs: b) other administrative expenses” and the inclusion of the so-called “commissione di istruttoria veloce” (CIV) which is classified among Net fees and commissions from “Recovery of expenses”, classified as a separate item, and excluded from “Other net operating income”;
- the inclusion among “Net trading income” of trading, hedging and fair value activities as well as the gains/losses realised on available-for-sale financial assets and on financial liabilities;
- the exclusion among the balance of “Net other operating expenses/income” of the costs for leasehold improvements classified among “Other administrative expenses”;
- the representation of “Payroll costs”, “Other administrative expenses”, “Amortisation, depreciation and impairment losses on tangible and intangible assets” and “Other charges and provisions” net of any “Integration costs”, relating to the reorganisation operations, classified as a separate item;
- the exclusion from “Other administrative expenses” of the contributions to the Resolution Funds (SRF), the Deposit Guarantee Schemes (DGS) and the Guarantee fees for DTA reclassified in item “Other charges and provisions”;
- the exclusion from “Amortisation, depreciation and impairment losses on tangible and intangible assets” of property owned for investment, which are reclassified among “Net income (losses) from investments”;
- the inclusion among “Net income (losses) from investments” of impairments/write-backs on available-for-sale financial assets as well as gains/losses for equity investments and disposal of investments.

## Non-current assets and disposal groups classified as held for sale

At 31 December 2017, the assets classified, as non-current assets and disposal groups according to IFRS5 include:

- in the sub-item “Financial assets” a medium-term Non-performing loan portfolio following sale agreement to the closed-end fund IDeA Corporate Credit Recovery - Fund II (“IDeA2”);
- in the sub-item “Equity investments” some subsidiaries acquired with the merger of Pioneer Global Asset Management S.p.A. (Baroda Pioneer A.M and Baroda Pioneer Trust) and the investment in i-Faber S.p.A.;
- in the sub-item “Property, Plant and Equipment” land and buildings with binding transfer agreements.

For further information see section Other information - Group activities development operations and other corporate transactions of this Report on Operations.

# Improve asset quality.



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



# Report on Operations

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Unless otherwise indicated, all amount are in millions of euros.

## Highlights

## Income Statement

(€ million)

	YEAR		CHANGE	
	2017	2016	P&L	%
Operating income	11,524	8,910	+2,614	+ 29.3%
of which:				
- net interest	3,711	3,693	+18	+ 0.5%
- dividends and other income from equity investments	3,808	1,173	+2,635	n.s.
- net fees and commissions	3,798	3,574	+224	+ 6.3%
Operating costs	(5,424)	(5,685)	+261	- 4.6%
Operating profit (Loss)	6,100	3,225	+2,875	+ 89.1%
Net write-downs of loans and provisions for guarantees and commitments	(1,854)	(10,379)	+8,525	- 82.1%
Net operating profit (Loss)	4,246	(7,154)	+11,400	n.s.
Profit (Loss) before tax	6,122	(11,262)	+17,384	n.s.
Profit (Loss) from non-current assets held for sale after tax	84	-	+84	+ 100.0%
Impairment of goodwill	-	-	-	-
<b>Net Profit (Loss)</b>	<b>6,236</b>	<b>(11,460)</b>	<b>+17,696</b>	<b>n.s.</b>

The figures in this table refer to reclassified income statement.

## Balance Sheet

(€ million)

	AMOUNTS AS AT		CHANGE	
	12.31.2017	12.31.2016	AMOUNT	%
Total assets	404,980	394,188	+10,792	+ 2.7%
Financial assets held for trading	13,864	14,026	- 162	- 1.2%
Loans and receivables with customers	208,965	213,237	- 4,272	- 2.0%
of which: Non-Performing loans	13,898	15,996	- 2,098	- 13.1%
Financial liabilities held for trading	13,068	14,557	- 1,489	- 10.2%
Deposits from customers and debt securities in issue	262,084	279,648	- 17,564	- 6.3%
of which:				
- deposits from customers	197,139	196,521	+618	+ 0.3%
- securities in issue	64,945	83,127	- 18,182	- 21.9%
<b>Shareholders' Equity</b>	<b>53,508</b>	<b>32,697</b>	<b>+20,811</b>	<b>+ 63.6%</b>

The figures in this table refer to reclassified balance sheet.

For further details on "Non-Performing loans" see paragraph "Loans to customers" and "Credit Quality" in this Report on Operations.

## Staff and Branches

	AS AT		CHANGE	
	12.31.2017	12.31.2016	AMOUNT	%
Employees	38,952	42,424	-3,472	- 8.2%
Branches	3,096	3,513	-417	- 11.9%
of which:				
- Italy	3,087	3,505	-418	- 11.9%
- Other countries	9	8	+1	+ 12.5%

### Profitability Ratios

	YEAR		% CHANGE
	2017	2016	
Net interest income/Operating income	32.2%	41.4%	- 9.2%
Net fees and commissions/Other administrative expenses net of recovery of expenses	176.8%	158.6%	+ 18.2%
Net fees and commissions/Operating costs	70.0%	62.9%	+ 7.2%
Operating profit (loss)/Operating income	52.9%	36.2%	+ 16.7%
Return on assets <sup>(*)</sup>	1.5%	- 2.9%	+ 4.4%

Note:

(\*) ROA: calculated as the ratio of Net profit (loss) to Total assets pursuant to Art.90 of CRD IV.

### Risk Ratios

	AS AT		% CHANGE
	12.31.2017	12.31.2016	
Net bad loans to customers/Loans to customers	2.7%	2.9%	- 0.2%
Net Non-performing loans to customers/Loans to customers	6.7%	7.5%	- 0.9%

For the amounts refer to table "Loans to customers - Credit quality" in paragraph "Results of the year" of this Report on Operations.

### Transitional Capital Ratios

	AMOUNTS AS AT	
	12.31.2017 <sup>(*)</sup>	12.31.2016 <sup>(*)</sup>
Total own funds (€ million)	60,332	40,649
Total risk-weighted assets (€ million)	202,121	200,612
<b>Common Equity Tier 1 Capital Ratio</b>	<b>22.99%</b>	<b>14.30%</b>
<b>Total Capital Ratio</b>	<b>29.85%</b>	<b>20.26%</b>

Note:

(\*)Transitional own funds and capital ratios including all transitional adjustments according to the yearly applicable percentages.

For more details refer to paragraph "Capital and Value Management - Capital Ratios" of this Report on Operations.

## Reclassified Company Accounts

## Reclassified Balance Sheet

(€ million)

ASSETS	AMOUNTS AS AT		CHANGE	
	12.31.2017	12.31.2016	AMOUNT	%
Cash and cash balances	25,817	1,852	+ 23,965	n.s.
Financial assets held for trading	13,864	14,026	- 162	- 1.2%
Loans and receivables with banks	27,567	22,349	+ 5,218	+ 23.3%
Loans and receivable with customers	208,965	213,237	- 4,272	- 2.0%
Financial investments	105,278	108,374	- 3,096	- 2.9%
Hedging instruments	6,114	8,160	- 2,046	- 25.1%
Property, plant and equipment	2,209	2,341	- 132	- 5.6%
Goodwill	-	-	-	-
Other intangible assets	4	5	- 1	- 20.0%
Tax assets	10,311	12,005	- 1,694	- 14.1%
Non-current assets and disposal groups classified as held for sale	150	7,439	- 7,289	- 98.0%
Other assets	4,701	4,400	+ 301	+ 6.8%
<b>Total assets</b>	<b>404,980</b>	<b>394,188</b>	<b>+ 10,792</b>	<b>+ 2.7%</b>

(€ million)

LIABILITIES AND SHAREHOLDERS' EQUITY	AMOUNTS AS AT		CHANGE	
	12.31.2017	12.31.2016	AMOUNT	%
Deposits from banks	56,807	44,381	+ 12,426	+ 28.0%
Deposits from customers and debt securities in issue	262,084	279,648	- 17,564	- 6.3%
Financial liabilities held for trading	13,068	14,557	- 1,489	- 10.2%
Financial liabilities designated at fair value	2,738	2,103	+ 635	+ 30.2%
Hedging instruments	6,279	8,920	- 2,641	- 29.6%
Provisions for risks and charges	1,843	3,407	- 1,564	- 45.9%
Tax liabilities	1	162	- 161	- 99.4%
Liabilities included in disposal groups classified as held for sale	-	3	- 3	- 100.0%
Other liabilities	8,652	8,310	+ 342	+ 4.1%
Shareholders' Equity:	53,508	32,697	+ 20,811	+ 63.6%
- capital and reserves	46,964	43,718	+ 3,246	+ 7.4%
- available-for-sale assets fair value reserve, cash-flow hedging reserve and Defined benefits plans reserve	308	439	- 131	- 29.8%
- net profit (loss)	6,236	(11,460)	+ 17,696	n.s.
<b>Total liabilities and Shareholders' Equity</b>	<b>404,980</b>	<b>394,188</b>	<b>+ 10,792</b>	<b>+ 2.7%</b>

As at 31 December 2016 the credit exposures belonging to the so-called "FINO Portfolio" were recognised in item "Non-current assets and disposal groups classified as held for sale". As at 31 December 2017 these credit exposures were no longer included in the balance sheet assets, following the disposal occurred in July 2017.

For a more detailed disclosure on "FINO Project", see the information provided in Part E - Information on risks and hedging policies - Section 1 - Credit risk, below the Table "A.1.2 Breakdown of credit exposures by portfolio and credit quality (gross and net amounts)".

**Reclassified Income Statement**

(€ million)

	YEAR		CHANGE	
	2017	2016	P&L	%
Net interest	3,711	3,693	+ 18	+ 0.5%
Dividends and other income from equity investments	3,808	1,173	+ 2,635	n.s.
Net fees and commissions	3,798	3,574	+ 224	+ 6.3%
Net trading income	302	360	- 58	- 16.1%
Net other expenses/income	(95)	110	- 205	n.s.
<b>OPERATING INCOME</b>	<b>11,524</b>	<b>8,910</b>	<b>+ 2,614</b>	<b>+ 29.3%</b>
Payroll costs	(3,139)	(3,298)	+ 159	- 4.8%
Other administrative expenses	(2,694)	(2,839)	+ 145	- 5.1%
Recovery of expenses	546	586	- 40	- 6.8%
Amortisation, depreciation and impairment losses on intangible and tangible assets	(137)	(134)	- 3	+ 2.2%
<b>Operating costs</b>	<b>(5,424)</b>	<b>(5,685)</b>	<b>+ 261</b>	<b>- 4.6%</b>
<b>OPERATING PROFIT (LOSS)</b>	<b>6,100</b>	<b>3,225</b>	<b>+ 2,875</b>	<b>+ 89.1%</b>
Net write-downs of loans and provisions for guarantees and commitments	(1,854)	(10,379)	+ 8,525	- 82.1%
<b>NET OPERATING PROFIT (LOSS)</b>	<b>4,246</b>	<b>(7,154)</b>	<b>+ 11,400</b>	<b>n.s.</b>
Other charges and provisions	(565)	(1,501)	+ 936	- 62.4%
Integration costs	14	(1,163)	+ 1,177	n.s.
Net income (losses) from investments	2,427	(1,444)	+ 3,871	n.s.
<b>PROFIT (LOSS) BEFORE TAX</b>	<b>6,122</b>	<b>(11,262)</b>	<b>+ 17,384</b>	<b>n.s.</b>
Income tax for the year	30	(198)	+ 228	n.s.
<b>PROFIT (LOSS)</b>	<b>6,152</b>	<b>(11,460)</b>	<b>+ 17,612</b>	<b>n.s.</b>
Profit (Loss) from non-current assets held for sale after tax	84	-	+ 84	+ 100.0%
Impairment of goodwill	-	-	-	-
<b>NET PROFIT (LOSS)</b>	<b>6,236</b>	<b>(11,460)</b>	<b>+ 17,696</b>	<b>n.s.</b>

## Reclassified Company Accounts - Quarterly Figures

## Reclassified Balance Sheet

(€ million)

ASSETS	AMOUNTS AS AT				AMOUNTS AS AT			
	12.31.2017	09.30.2017	06.30.2017	03.31.2017	12.31.2016	09.30.2016	06.30.2016	03.31.2016
Cash and cash balances	25,817	20,437	24,093	9,489	1,852	1,500	1,555	1,646
Financial assets held for trading	13,864	17,980	15,794	17,749	14,026	16,672	20,280	17,758
Loans and receivables with banks	27,567	23,377	18,268	19,846	22,349	19,942	19,102	20,497
Loans and receivable with customers	208,965	210,466	213,990	218,833	213,237	222,353	229,434	228,780
Financial investments	105,278	98,593	98,887	105,244	108,374	113,488	119,307	118,597
Hedging instruments	6,114	6,510	6,781	7,352	8,160	9,785	10,056	9,761
Property, plant and equipment	2,209	2,267	2,280	2,317	2,341	2,369	2,378	2,389
Goodwill	-	-	-	-	-	-	-	-
Other intangible assets	4	7	4	4	5	5	6	6
Tax assets	10,311	10,961	11,483	12,165	12,005	12,373	12,545	12,627
Non-current assets and disposal groups classified as held for sale	150	2,316	4,070	7,312	7,439	260	195	92
Other assets	4,701	4,189	4,759	4,503	4,400	4,226	4,283	6,186
<b>Total assets</b>	<b>404,980</b>	<b>397,103</b>	<b>400,409</b>	<b>404,814</b>	<b>394,188</b>	<b>402,973</b>	<b>419,141</b>	<b>418,339</b>

(€ million)

LIABILITIES AND SHAREHOLDERS' EQUITY	AMOUNTS AS AT				AMOUNTS AS AT			
	12.31.2017	09.30.2017	06.30.2017	03.31.2017	12.31.2016	09.30.2016	06.30.2016	03.31.2016
Deposits from banks	56,807	55,999	55,868	58,914	44,381	48,057	48,481	40,380
Deposits from customers and debt securities in issue	262,084	259,727	258,815	262,102	279,648	272,833	284,068	294,911
Financial liabilities held for trading	13,068	14,191	13,040	14,334	14,557	14,556	17,008	13,946
Financial liabilities designated at fair value	2,738	2,785	2,708	2,665	2,103	1,133	1,088	814
Hedging instruments	6,279	6,569	7,087	7,972	8,920	10,678	11,221	10,719
Provisions for risks and charges	1,843	1,741	1,622	2,576	3,407	2,153	2,238	2,659
Tax liabilities	1	2	8	164	162	95	91	142
Liabilities included in disposal group classified as held for sale	-	-	-	4	3	-	-	-
Other liabilities	8,652	8,632	13,492	11,063	8,310	9,581	10,752	10,913
Shareholders' Equity:	53,508	47,457	47,769	45,020	32,697	43,887	44,194	43,855
- capital and reserves	46,964	46,032	46,091	44,852	43,718	43,116	43,152	43,353
- available-for-sale assets fair value reserve, cash-flow hedging reserve and Defined benefits plans reserve	308	355	378	157	439	447	465	650
- net profit (loss)	6,236	1,070	1,300	11	(11,460)	324	577	(148)
<b>Total liabilities and Shareholders' Equity</b>	<b>404,980</b>	<b>397,103</b>	<b>400,409</b>	<b>404,814</b>	<b>394,188</b>	<b>402,973</b>	<b>419,141</b>	<b>418,339</b>

As at 31 December 2016 the credit exposures belonging to the so-called "FINO Portfolio" were recognised in item "Non-current assets and disposal groups classified as held for sale". In 2017 these credit exposures are no longer included in the balance sheet assets, following the disposal occurred in July 2017.

For a more detailed disclosure on "FINO Project", see the information provided in Part E - Information on risks and hedging policies - Section 1 - Credit risk, below the Table "A.1.2 Breakdown of credit exposures by portfolio and credit quality (gross and net amounts)".

**Reclassified Income Statement**

(€ million)

	2017				2016			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Net interest	922	874	957	958	817	924	969	983
Dividends and other income from equity investments	106	2	3,607	93	126	1	1,045	1
Net fees and commissions	954	900	994	950	800	867	932	975
Net trading income	130	76	45	51	12	84	171	93
Net other expenses/income	(18)	(24)	(33)	(20)	(40)	50	105	(5)
<b>OPERATING INCOME</b>	<b>2,094</b>	<b>1,828</b>	<b>5,570</b>	<b>2,032</b>	<b>1,715</b>	<b>1,926</b>	<b>3,222</b>	<b>2,047</b>
Payroll costs	(785)	(779)	(793)	(782)	(756)	(830)	(864)	(848)
Other administrative expenses	(697)	(685)	(657)	(655)	(785)	(698)	(672)	(684)
Recovery of expenses	170	128	123	125	158	145	152	131
Amortisation, depreciation and impairment losses on intangible and tangible assets	(39)	(35)	(32)	(31)	(36)	(35)	(32)	(31)
<b>Operating costs</b>	<b>(1,351)</b>	<b>(1,371)</b>	<b>(1,359)</b>	<b>(1,343)</b>	<b>(1,419)</b>	<b>(1,418)</b>	<b>(1,416)</b>	<b>(1,432)</b>
<b>OPERATING PROFIT (LOSS)</b>	<b>743</b>	<b>457</b>	<b>4,211</b>	<b>689</b>	<b>296</b>	<b>508</b>	<b>1,806</b>	<b>615</b>
Net write-downs of loans and provisions for guarantees and commitments	(471)	(433)	(473)	(477)	(8,425)	(697)	(683)	(574)
<b>NET OPERATING PROFIT (LOSS)</b>	<b>272</b>	<b>24</b>	<b>3,738</b>	<b>212</b>	<b>(8,129)</b>	<b>(189)</b>	<b>1,123</b>	<b>41</b>
Other charges and provisions	(108)	(241)	(76)	(140)	(953)	(88)	(349)	(111)
Integration costs	16	(1)	1	(2)	(1,028)	(21)	(71)	(43)
Net income (losses) from investments	4,953	(9)	(2,468)	(49)	(1,479)	95	(40)	(20)
<b>PROFIT (LOSS) BEFORE TAX</b>	<b>5,133</b>	<b>(227)</b>	<b>1,195</b>	<b>21</b>	<b>(11,589)</b>	<b>(203)</b>	<b>663</b>	<b>(133)</b>
Income tax for the year	(51)	(3)	94	(10)	(195)	(50)	62	(15)
<b>PROFIT (LOSS)</b>	<b>5,082</b>	<b>(230)</b>	<b>1,289</b>	<b>11</b>	<b>(11,784)</b>	<b>(253)</b>	<b>725</b>	<b>(148)</b>
Profit (Loss) from non-current assets held for sale after tax	84	-	-	-	-	-	-	-
Impairment of goodwill	-	-	-	-	-	-	-	-
<b>NET PROFIT (LOSS)</b>	<b>5,166</b>	<b>(230)</b>	<b>1,289</b>	<b>11</b>	<b>(11,784)</b>	<b>(253)</b>	<b>725</b>	<b>(148)</b>

## UniCredit Share

## Share Information

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
<b>Share price (€)<sup>(1)</sup></b>											
- maximum	18.350	25.733	32.824	34.427	28.213	22.440	65.912	76.243	87.212	151.942	204.632
- minimum	12.160	8.785	24.605	25.583	16.227	11.456	21.157	49.212	19.283	40.138	136.484
- average	15.801	13.820	29.509	30.015	22.067	16.520	42.923	63.702	59.078	99.949	174.068
- end of period	15.580	13.701	25.733	26.735	26.961	18.572	21.190	51.093	73.819	46.507	151.355
<b>Number of outstanding shares (million)</b>											
- at period end <sup>(1)</sup>	2,226	618	5,970	5,866	5,792	5,789	1,930	19,297.6	16,779.3	13,368.1	13,278.4
- shares cum dividend	2,216	608	5,873	5,769	5,695	5,693	1,833	18,330.5	18,329.5	13,372.7	13,195.3
of which: savings shares	0.25	0.25	2.48	2.45	2.42	2.42	2.42	24.2	24.2	21.7	21.7
- average <sup>(1)</sup>	1,957	611	5,927	5,837	5,791	5,473	1,930	19,101.8	16,637.8	13,204.6	11,071.6
<b>Dividend</b>											
- total dividends (€ million)	726	-	706	697	570	512	(***)	550	550	(**)	3,431
- dividend per ordinary share	0.320	-	0.120	0.120	0.100	0.090	(***)	0.030	0.030	(**)	0.260
- dividend per savings share	-	-	0.120	1.065	0.100	0.090	(***)	0.045	0.045	(**)	0.275

## Notes:

(1) The number of shares is the precise one, net of Treasury shares, and included No.9.676 million of shares held under a contract of usufruct.

(\*) Following extraordinary corporate operations, which involve the detachment of rights, stock splitting or grouping, demerger operations and distribution of extraordinary dividends, the price of the shares can fluctuate so much that they are no longer comparable. Thus, the time series hereby published are adjusted accordingly to restore the continuity of historical price series.

(\*\*) The 2008 dividend was paid with cash to savings shareholders (€0.025 per share, for a total amount of €0.5 million), and with newly issued shares (so called "scrip dividend").

(\*\*\*) As per Banca d'Italia's paper dated 2 March 2012, in keeping with the decision of UniCredit S.p.A.'s Board of Directors and in line with the intention announced to the Shareholders' Meeting in 2012, UniCredit S.p.A. paid no dividends with respect to its 2011 financial results.

In 2011 the following operations were carried out:

- the €2.5 billion free capital increase, through the allocation to capital of an equivalent amount transferred from the "Issue-premium reserve";
- the reverse stock split of ordinary and savings shares based on a ratio of 1 new ordinary or savings share for every 10 existing ordinary or savings shares;
- the elimination of the per-share nominal value of UniCredit shares.

In the first quarter of 2012 the capital increase of €7.5 billion equal to a number of shares issued of 3,859,602,938 was fully subscribed for. Figures relating to the 2013 dividend are shown according to the specific Board of Directors' reports on the distribution to Shareholders.

The Shareholders' Meeting of 13 May 2014 approved a scrip dividend scheme under which the holders of ordinary shares and the holders of savings shares will be allocated one new share for every sixty shares held and one new share for every eighty-four shares held, respectively. The new shares were allocated through a free share capital increase, without prejudice to the shareholders' right to opt for a cash payout (€0.10 for each ordinary and savings share) in lieu of the allocation of the new shares.

The Shareholders' Meeting held on 13 May 2015 approved the payment of dividends in the form of a scrip dividend, with the assignment to shareholders who hold ordinary shares of one new share per fifty shares held, and to holders of savings shares one new share per seventy-two shares held. The assignment of the new shares occurred following a free share-capital increase, without affecting the shareholders' right to request payment of the dividend in cash (€0.12 per ordinary and savings share), in place of assignment of shares.

The Shareholders' Meeting also approved the partial distribution of 2014 and previous years profits, with payment of €0.945 per savings share, as preferred dividend.

The Shareholders' Meeting held on 14 April 2016 approved the payment of dividends in the form of a scrip dividend, with the assignment to shareholders who hold ordinary shares of one new share per twenty-three shares held, and to holders of savings shares one new share per fifty-four shares held. The assignment of the new shares occurred following a free share-capital increase, without affecting the shareholders' right to request payment of the dividend in cash (€0.12 per ordinary and savings share), in place of assignment of shares.

In 2017 the following operations were carried out:

- the reverse stock split of ordinary and savings shares based on a ratio of 1 new ordinary or savings share for every 10 existing ordinary or savings shares;
- the €13,000 million fully subscribed capital increase, of which €16 million as share capital and €12,984 as share premium, through the issuance of No.1,606,876,817 new ordinary shares.

Shareholders' Meeting held on 4 December 2017 resolved mandatory conversion of the existing No.252,489 savings shares into ordinary shares with a conversion ratio of 3.82 ordinary shares each 1 savings share subject to the conversion, assigning newly issued shares and/or treasury shares and in any case without variation of the share capital value. The conversion will become effective at the end of the period for exercising the withdrawal rights.

The Shareholders' Meeting of 12 April 2018 approved the payment of dividends to the holders of ordinary shares a dividend of €0.32 for each share outstanding and entitled to dividend at payment date, for a maximum amount of €726 million, from allocation of 2017 net profit.



## Macroeconomic situation, banking and financial markets

### International situation

#### USA/Eurozone

In the second half of 2017, the global recovery has picked up further momentum, expanding at an annualised pace of about 3.5%. For the first time since the beginning of the recovery, the upturn is highly synchronised across the advanced and emerging world. This lift to global growth, supported by policy stimulus, is being accompanied by solid employment gains, a moderate upturn in investment and a pick-up in trade growth. Both in Japan and in the US, economic activity remains strong and the labor market continues to be tight, whereas in the UK the economic environment is deteriorating as a result of the Brexit-related uncertainty. Economic activity in China remains robust and the Congress of the Communist Party confirmed Xi as President. Now, Beijing will probably focus more on quality growth and not just on its pace.

In the euro area, the recovery continues and is now broadening among sectors and countries. The latest economic indicators, particularly business surveys, remain elevated, confirming the expectation of robust growth in the second half of 2017. Annualised real GDP growth was likely above 2% in the last two quarters of the year. Private consumption is continuing to increase and remains a key driver of the ongoing economic expansion, together with a solid expansion in exports and, in turn, in investment. Also employment is on the mend, as a result of an overall improving macroeconomic environment.

Inflationary pressure remains moderate in the eurozone, at around 1.5% year on year. Core inflation seems to be on track for a slight increase to 1.0%. Energy prices are putting upward pressure on headline inflation, while food prices are pulling in the opposite direction. At its October meeting, the European Central Bank recalibrated its asset purchase programme (APP), which was reduced to €30 billion from €60 billion per month, starting in January 2018 until September 2018. The Governing Council reiterated its readiness to increase the APP in terms of the size of purchases and/or the duration of the programme if the outlook becomes less favorable, or if financial conditions become inconsistent with further progress towards a sustained adjustment in the path of inflation. The Governing Council also confirmed that the Eurosystem would reinvest the principal payments from maturing securities purchased under the APP for an extended period of time after the end of its net asset purchases.

The US is currently enjoying one of the longest recoveries on record. As the drag of past exchange rate appreciation and oil price movements abated, economic growth picked up pace in mid-2017. Private consumption remains robust, supported by wealth gains from buoyant asset prices and stronger income growth. In the business sector, confidence remains strong and business investment is rebounding. Given the buoyant macroeconomic performance, the Fed raised its policy rates for the third time in the year.

### Banking and financial markets

During the course of 2017, the improvement in the dynamic of bank loans in the eurozone continued, with the credit recovery having progressively benefited from the strengthening of economic growth. In 2017, the credit recovery has become increasingly widespread in the eurozone, where both loans to non-financial corporations and loans to households have been approaching annual growth of close to 3.0%. The annual pace of growth in bank credit has now returned to the level observed in 2009, decisively shaking off the persistent weakness that endured following both the global financial crisis and the sovereign debt crisis. Regarding the three core countries of the group, credit dynamics strengthened most in Germany and Austria, which exhibited a sustained pace of expansion that was higher than the eurozone average, both for loans to non-financial corporations and loans to households. In contrast, in Italy, in 2017 a dichotomy continued to prevail between the dynamic of loans to households, which saw an increasing annual growth rate, in line with that in the eurozone, and loans to non-financial corporations, which just showed a stabilisation before returning to slightly negative growth towards the end of the year.

With regard to the dynamics of bank funding, deposits have continued to expand at a good pace in 2017, in all three countries of the group. Deposit development continues to be mainly driven by sustained growth in sight deposits, while medium to longer-term funding has contracted, although there have been some signs of improvement towards the end of the year in savings deposits in Germany and deposits redeemable with notice in Italy. The extensive recourse to sight deposits remains fully explained by the ECB's accommodative monetary policy and hence the ongoing low yields on bank liabilities.

# Results of the year

In addition, the current accommodative monetary policy has further fueled a downward trend in bank interest rates towards the end of 2017. Interest rates on both bank loans and deposits declined, repeatedly hitting new historical lows in all of the core countries of the Group. As a consequence, bank spreads (the difference between the average rate on loans and the average rate on deposits) remained largely stable throughout 2017.

Financial markets in the euro area have experienced reduced volatility and uncertainty over the latter part of 2017. This was accompanied by a marked improvement in stock market performance, which has been satisfactory in 2017. The Austrian stock market has achieved the most solid performance among the three core countries, with an increase of about 30% compared to December 2016. The performance of the Italian and German markets was more moderate, but still very positive, showing an increase of 16% year-to-date.

## CEE Countries

2017 was the best year since the financial crisis for CEE, with all economies growing above potential. However, the reasons for good performance were very different.

In EU-CEE<sup>1</sup>, a combination of strong demand from the eurozone, loose monetary conditions and expansionary fiscal policy<sup>2</sup> helped all countries eliminate the remaining slack. Growth exceeded 4% and was broad-based, with consumption leading the way. Tight labour market conditions led to a sharp drop in unemployment while wages outpaced productivity. In addition, investment benefited from rising EU fund inflows, with Hungary standing out. Prices and output in real estate markets rose in double digits as households continued to transfer wealth to real assets. Although exports benefited from good eurozone demand, they were outpaced by imports.

Fast economic growth was achieved without threatening macroeconomic balances. Private-sector deleveraging was slow, despite improving financial conditions for both households and companies. At the same time, governments kept public spending in check, although the structure of spending changed further to favour social security spending over public investment. Structural budget deficits widened throughout the region, but remained below 3% of GDP in most countries. Large trade surpluses added to EU fund inflows and FDI to keep extended basic balances (EBB) at 3-10% of GDP, with Hungary, Slovenia and Bulgaria standing out. Romania is the notable laggard. Populist policies led to the re-emergence of twin deficits, low public investment and the only EBB deficit in EU-CEE.

Low imported inflation, a dovish ECB and strong external positions allowed central European central banks to remain on hold in 2017. The exception was the CNB, which started normalising interest rates as inflation rose above target and labour market conditions became the tightest in the EU. Convinced that inflation will remain inside target ranges, central banks in Hungary and Poland decided to wait for hawkish signals from the ECB before hiking. In Romania, the NBR remained behind the curve, failing to react to fast reflation.

In Turkey, above 6%-economic growth was explained by base effects, a large credit impulse and fiscal easing. Last year's failed coup boosted 3Q17 growth to 11.1% yoy, the fastest growth rate since 2011. Banks increased lending to SMEs by 8% of GDP, backed by Treasury guarantees via the Credit Guarantee Fund. Finally, the government increased spending, especially for public consumption, social security and public construction projects. All these measures managed to keep growth safely above the 5% threshold that the government is targeting in the run-up to presidential elections expected in 2019.

The credit and fiscal impulses led to a wider C/A deficit, 70% of which was financed with portfolio flows. Good risk appetite stabilised the TRY between February and mid-September, but lower portfolio inflows brought about another episode of TRY depreciation in the last four months of the year. Growth-supporting measures pushed inflation to the highest level in fourteen years amid surging core inflation and a large pass-through from TRY depreciation. While the CBRT increased the late liquidity window lending rate by a cumulative 1.75pp in 2017, this failed to stabilise the currency and inflation.

<sup>1</sup> Bulgaria, Croatia, the Czech Republic, Hungary, Poland, Romania, Slovakia and Slovenia.

<sup>2</sup> With the exception of Croatia and Slovenia.

In Russia, above-potential growth in 2017 marked the rebound from recession, rather than the beginning of a sustained growth episode. In fact, the recovery lost steam in the second half of the year, with household income continuing to fall in real terms and investment in machinery and building tanking. Exports recovered in line with oil prices, but were outpaced by imports. Public spending was kept in check, with the government targeting a gradual reduction in the primary deficit until 2020.

A negative output gap and tight monetary conditions helped the CBR lower inflation below the 4% target. The central bank continued to cut interest rates cautiously, its improving credibility being mirrored by falling inflation expectations. The correlation between the RUB and oil prices weakened as the MinFin purchased FX in the market to sterilise the revenues from oil and gas in excess of budgeted prices. Thus, Russia is one of the few commodity exporters that managed to adjust to the terms-of-trade shock of 2014-15.

The positive macro picture in CEE was clouded by political risks. Populism continued to make inroads in EU-CEE, with controversial judicial changes setting Poland and Romania on a collision course with European institutions. However, the punishment may come only with the 2021-27 EU budget, which is likely to see a cut in cohesion and investment funds allotted to CEE-EU. Turkey's tense relations with the EU and the US were further strained by the trial of Mehmet Hakan Atilla, accused of breaching US sanctions against Iran.

## Main results and performance of the period

### The income statement

#### Breakdown of operating profit

Net operating profit (loss) at 31 December 2017 totaled €4,246 million, up €11,400 million on the previous year.

The figure was the result of an operating profit of €6,100 million (+€2,875 million or +89.1% year on year) and net write-downs of loans of -€1,854 million (+€8,525 million year-on-year).

The annual improvement in the Operating profit (loss) on December 2016 is attributable to the increase in Operating income (+€2,614 million) and the decrease in Operating costs (+€261 million).

#### Net operating profit (loss)

(€ million)

	YEAR		CHANGE	
	2017	2016	P&L	%
Operating income	11,524	8,910	+ 2,614	+ 29.3%
Operating costs	(5,424)	(5,685)	+ 261	- 4.6%
<b>Operating profit (loss)</b>	<b>6,100</b>	<b>3,225</b>	<b>+ 2,875</b>	<b>+ 89.1%</b>
Net writedowns of loans and provisions for guarantees and commitments	(1,854)	(10,379)	+ 8,525	- 82.1%
<b>Net operating profit (loss)</b>	<b>4,246</b>	<b>(7,154)</b>	<b>+ 11,400</b>	<b>n.s.</b>

#### Operating income

At 31 December 2017, Operating income totaled €11,524 million, up €2,614 million on the previous year (+29,3%). The increase was largely attributable to Dividends and other income from equity investments (+€2,635 million) and Net fees and commissions (€224 million), that offset the decrease in Net trading income (-€58 million) and in Net other expenses/income (-€205 million).

Net interest income at December 2017 amounted to €3,711 million with a light improvement on the previous year (+0.5%).

In 2017 the compression on loan rates due to the general presence of liquidity in the system and the particular competitiveness of the market on interest rates was partially offset by the increase in corporates and households medium long-term loans volumes, the lending support policies implemented by the ECB and the reduction in cost of funding.

In the fourth quarter 2017, the Bank went on in executing the Yearly Funding Plan carrying out the diversification of the funding mix in order to optimise access to capital market and the relating costs.

At the end of December, around 60% of the Funding Plan was completed, coherently with the relevant liquidity generated by the other sources of liquidity as the commercial network and the so called Targeted Long Term Refinancing Operations (TLTRO), provided to the European banking system by the European Central Bank in March.

# Results of the year

Finally, the Bank executed successfully the first three issues under the US GMTN Programme, placed to Institutional Investors in April and June. As regards the cost of funding, in 2017 the Bank over-performed the expectations in terms of the medium long term interest rate spread over Euribor rate paid to Investors.

Dividends and other income from equity investments recorded in 2017 amounted to €3,808 million, increased by €2,635 million year on year. The increase was mainly attributable to ordinary and extraordinary amounts distributed by UniCredit Bank AG in 2017 amounting to €3,005 (+€2,607 million compared to 2016).

Net fee and commission income and expense at 31 December 2017 amounted to €3,798 million, increased by +€224 million (+6.3%) year-on-year. This increase was mainly due to Asset management, custody and administration (+€277 million), driven by mutual funds and insurance products. Decrease in current accounts, loans and credit commitments sector was driven by the lower remuneration of credit facilities and overdrafts (-€72 million) and higher commission expenses relating to synthetic securitisations (-€20 million).

Net trading income (+€302 million) was essentially attributable to the gains from the sale of AFS securities (+€294 million, of which +€226 million from Government bonds trade and +€43 million from F2I and Fondo Italiano d'Investimento disposal) and to the gains on repurchases of the Bank's bonds (+€42 million).

In 2017 Net trading income recorded losses from the effects of the exchange rate revaluation of the exposure in USD generated by the issuance of Additional Tier 1 instruments (-€55 million), Certificates (-€43 million) and XVA - Credit, Funding and Debt Value Adjustment (-€14 million). At the end of December 2017, the losses relating to the Convertible Mandatorily Settled Equity Linked Certificate relating to Pekao disposal amounted to -€60 million.

Overall, Net trading income decreased by -€58 million compared to the previous year.

The main changes in comparison with 2016 are attributable to the following:

- -€83 million from Certificates and their derivatives;
- -€52 million from the effects of the exchange rate revaluation of the exposure in USD generated by the issuance of Additional Tier 1 instruments;
- -€59 million from XVA;
- +€33 million from gains on repurchases of the Bank's bonds;
- +€30 million from lower losses from Pioneer funds.

The balance of other operating income and charges at December 2017 amounted to -€95 million, compared to +€110 million in the same period of the previous year. The main impacts in 2017 are due to charges relating to company activities (compensation, rebates, services provided, recoveries, rents, etc.) totaling -€111 million and +€16 million attributable to profit arising from the sale of Loans & Receivables securities.

## Operating costs

The total of Operating Costs at December 2017 amounted to -€5,424 million, recording a decrease of €261 million (-4.6%) compared to the previous year. Staff expenses, amounted to -€3,139 million, decreased compared to 2016 by approximately €159 million (-4.8%), mainly due to staff structure reduction.

The change in the staff structure, which in terms of Full Time Equivalent (FTE) stands at 37,135 at 31 December 2017, showed a decrease of about 3,268 FTE from the previous year mainly attributable to ongoing incentive exit Plans.

Other administrative expenses in 2017 totaled -€2,694 million, decreased by €145 million (-5.1%) compared to 2016. This decrease was concentrated on indirect taxes and duties (-€32 million), mainly for less costs relating to stamp duties, on ICT expenses (-€21 million), on expenses relating to personnel (-€18 million) and on consulting expenses (-€13 million).

Recovery of expenses, amounting to €546 million, decreased (-€40 million, -6.8% year-on-year), primarily for less recovery on stamp duties.

Amortisation, depreciation and impairment losses on intangible and tangible assets amounted to -€137 million, increased by €3 million compared to the previous year (+2.2%).

## Net impairment losses on loans

At the end of December 2017, net write-downs on loans and provisions for guarantees and commitments amounted to -€1,854 million, down by €8,525 million compared to the previous year. The significant decrease relates to the initiatives launched at the end of 2016 (FINO Project and PORTO Project), under which significant methodological updates have been introduced by 31 December 2016, in order to make them adherent to the new managerial approach in the management of Non-Performing Loans, in compliance with the defined guidelines of the 2016-2019 Strategic Plan approved by the Board of Directors.

## Net operating profit

Net operating profit (loss) came to +€4,246 million, up +€11,400 million compared to -€7,154 million in 2016, due to both the increase in Dividends and other income from equity investments versus the previous year and to the reduction in net write-downs of loans and provisions for guarantees and commitments, as said above.

## Net profit (loss)

In the table below, the data showing the transition from operating profit (loss) to net profit (loss) have been reclassified for illustrative purposes.

### Net profit (loss)

(€ million)

	YEAR		CHANGE	
	2017	2016	P&L	%
<b>NET OPERATING PROFIT (LOSS)</b>	<b>4,246</b>	<b>(7,154)</b>	<b>+ 11,400</b>	<b>n.s.</b>
Other charges and provisions	(565)	(1,501)	+ 936	- 62.4%
Integration costs	14	(1,163)	+ 1,177	n.s.
Net income (losses) from investments	2,427	(1,444)	+ 3,871	n.s.
<b>PROFIT (LOSS) BEFORE TAX</b>	<b>6,122</b>	<b>(11,262)</b>	<b>+ 17,384</b>	<b>n.s.</b>
Income tax for the year	30	(198)	+ 228	n.s.
<b>PROFIT (LOSS)</b>	<b>6,152</b>	<b>(11,460)</b>	<b>+ 17,612</b>	<b>n.s.</b>
Profit (Loss) from non-current assets held for sale after tax	84	-	+ 84	+ 100.0%
Impairment of goodwill	-	-	-	-
<b>NET PROFIT (LOSS)</b>	<b>6,236</b>	<b>(11,460)</b>	<b>+ 17,696</b>	<b>n.s.</b>

The item includes the economic items referred to 2017 relating to discontinued operations belonging to Pioneer Global Asset Management S.p.A., merged into UniCredit S.p.A in the context of the business combination realised at the end of 2017.

## Other charges and provisions

Other charges and provisions, amounting to -€565 million, compared to -€1,501 million in 2016, consider the Deposit Guarantee Scheme (DGS) contribution to Fondo Interbancario di Tutela dei Depositi - FITD (-€69 million), the ordinary contribution to the Single Resolution Fund (-€109 million) and other general provisions for litigations, lawsuits, disputes, incidents and claims in which the Bank is a passive subject.

## Integration costs

Integration costs amounted to +€14 million, substantially attributable to a partial release of reorganisation costs accrued in December 2016 and associated with the Personnel Departure Incentive Plan, as envisaged by the 2016-2019 Strategic Plan.

## Net income (losses) from Investments

Net income from investments was +€2,427 million, recording an increase of €3,871 million compared to 2016.

Specifically, in 2017 €1,660 million was recorded as profit on sale (of which, +€1,551 million regarding Pioneer sale, +€110 million relating to Pioneer Pekao Investment Management SA).

Write-downs/write-backs on equity was recognised for €1,021 million (of which +€947 million regarding UniCredit Bank Austria, +€293 million regarding UniCredit Bank AG).

# Results of the year

## Taxes on income

Income taxes for 2017 amounted to a positive of €30.2 million, improved compared to the negative value of €198.4 million in 2016.

As from 2017, tax provisions provided by Law 208/2015 (Budget Law for 2016) and stated to be applied with a year deferral entered into force:

- as per Art.1, c.61: IRES nominal rate is reduced from 27.5% to 24%;
- as per Art.1, c.65: Banks are levied by a 3.5% IRES additional rate;
- as per Art.1, c.67: the 4% non-deductibility on bank interest expense was abolished (so-called "Robin Hood tax").

Therefore, while IRES nominal rate for UniCredit S.p.A. is unchanged, interest expenses are now fully deductible.

As per Art.7 of Law 21 June, 2017 No.96, which converted Law Decree No. 50/2017, a new extent of the notional yield for ACE ("Aiuto alla Crescita Economica") tax relief is stated, with a reduction of the rate from 4.75% for 2016 to 1.6% for 2017 and 1.5% for 2018.

The tax items in income statement amount to €30.2 million of profit and consists mainly of:

- an IRES credit (current + deferred) of +€142.2 million;
- an IRAP provision (current + deferred) of -€92.5 million;
- a provision of -€3.0 million for taxation for transparency of black list foreign subsidiaries (CFC);
- non-deductible withholding for -€8.1 million incurred in Italy and abroad;
- extraordinary cost for -€8.9 million deriving from the cancellation of DTAs due to the revaluation of 2016 tax items that could only have been roughly assessed in the event of provision for 2016 financial statements.

A negative IRES taxable base for an amount of €1,704.9 million has been accounted. Deferred Tax Assets on tax losses to be carried forward for €468.9 million could have been recorded, up to a total amount of €3,272.7 million together with the amount of 2016. A further amount of €32.5 million deriving from the merger of the subsidiary PGAM must be added. However, following the "Sustainability Test", performed under a 5 years horizon set in order to harmonise the approach within the main Group Legal Entities, in the event of a Tax Group with a negative taxable base and following the settlement of 2016 Tax Group base, it was possible to register only an amount of €247 million, with no effect on P&L due to the presence of tax cases which, in application of international accounting standards, do not have effects on the income statement.

Notwithstanding the previously mentioned strong reduction of the percentage rate for calculation of ACE tax relief, an increase in the amount with respect to 2016 was registered owing to the raise in capital of €13 billion performed between February and March 2017: the tax benefit increases from €43.4 million in 2016 to €53.4 million in 2017. A total amount of DTA for €96.8 million should have been recorded. But, following to the execution of the Sustainability Test in the event of a Tax Group with a negative taxable base no DTAs has been accounted.

As the forecast for IRAP taxable base for 2018 is negative, an impairment of €22 million on the DTAs for temporary differences that would have had a reversal on IRAP in 2018 was also made, as deemed non-recoverable. This impairment has an equal negative impact on the P&L of €22 million.

## Net profit (loss)

Net profit is equal to €6,236 million, higher than the same period of last year's loss amounting to €11,460 million.

## The Balance Sheet

### Loans to Customers

As of 31 December 2017, loans to customers totalled €208,965 million, a decrease of €4,272 million (-2.0%) compared to 31 December 2016.

#### Loans and receivables with customers

(€ million)

	AMOUNTS AS AT		CHANGE	
	12.31.2017	12.31.2016	AMOUNT	%
Performing loans	168,763	169,167	- 404	- 0.2%
Repos	23,890	24,710	- 820	- 3.3%
Debt securities	2,415	3,364	- 949	- 28.2%
Non-Performing exposures	13,898	15,996	- 2,098	- 13.1%
<b>Total loans and receivables with customers</b>	<b>208,965</b>	<b>213,237</b>	<b>- 4,272</b>	<b>- 2.0%</b>
<i>of which:</i>				
- units operating in Italy	207,410	212,067	- 4,657	- 2.2%
- units operating abroad	1,555	1,170	+ 385	+ 32.9%

This decline is essentially attributable to loans disbursed by the units operating in Italy (€207,410 million), which decreased by €4,657 million compared to the figures at 31 December 2016 (€212,067 million).

More specifically:

- **performing loans** decreased by €404 million (-0.2%);
- **reverse repos** recorded a decrease of €820 million (-3.3%);
- **debt securities** decreased by €949 million (-28.2%);
- **impaired assets** recorded a decrease of €2,098 million (-13.1%).

**Performing loans** (€168,763 million at 31 December 2017) included €1,168 million due from Special Purpose Vehicles (SPVs), attributable to liquidity which UniCredit S.p.A., following the downgrading from 2012 by the rating agencies involved in the transactions, had to transfer (based on the contractual documentation signed) to other banks, still considered "eligible", in favor of the SPVs granting loans as part of the transactions originated by UniCredit S.p.A. in relation to securitisations and covered bond issue programmes.

During 2017 the aforementioned receivables from Special Purpose Vehicle (S.P.V.) fell by -€4.083 million compared to 31 December 2016 because, as a result of the review of the contractual agreements linked to securitisation transactions and covered bond issue programmes, part of the liquidity outsourced was included once again in UniCredit S.p.A.'s funds.

**Reverse repos** amounted to €23,890 million at 31 December 2017 (€24,710 million at the end of 2016), and consisted almost entirely of transactions with Cassa di Compensazione e Garanzia and with Cassa Depositi e Prestiti.

**Debt securities**, excluding impaired assets, amounted to €2,415 million as at 31 December 2017. The decrease in this aggregate item (-€949 million) is essentially attributable to the periodic amortisation of the securities in the portfolio associated with the LSV9 - SERIE 2016 securitisation.

**Impaired loans** at the end of December 2017 amounted to €13,898 million and came to 6.7% of the total amount of loans to customers. They mainly referred to the business segment.

The change in this aggregate (-13.1% compared to €15,996 million at the end of December 2016) is the direct result of the implementation of a new approach in the management and recovery of such loans that focuses on the timeliness of receipts in order to more quickly reduce their stock as envisaged in the new 2016-2019 Strategic Plan approved on 12 December 2016.

In 2017 portfolios of Loans to Customers were sold for a total nominal value as of 31 December 2016 of €1,066 million, recorded on the same date at a book value of €239 million.

## Results of the year

## Credit quality

As of 31 December 2017, the face value of the impaired assets totaled €32,689 million, representing 14.3% of total nominal loans to customers down by 15.7% on 31 December 2016. At book value (net of write-downs of €18,791 million), impaired loans stood at €13,898 million at year-end 2017, down compared to €15,996 million at 31 December 2016, representing 6.7% of total loans compared to 7.5% at the end of 2016. The ratio of non-performing loans (at face values) amounted to 7.8% of total loans to customers, 8.1% at the end of 2016; loans classified as unlikely to pay amounted to 6.3% of total loans (7.3% at the end of 2016), while impaired past due exposures amounted to 0.24% of total loans (0.26% at the end of 2016).

The coverage ratio of impaired loans (specific write-downs to face value) came to around 57.6%, up on the 56.6% figure recorded at the end of December 2016 and consisting of 68.2% of non-performing loans, 45.0% of loans classified as unlikely to pay and 39.2% of impaired past due exposures.

Performing loans, which amounted to €195,984 million at face value (€198,239 million at 31 December 2016), were written down, at 31 December 2016, by a total of €916 million, with a coverage ratio of 0.47% (0.5% at the end of 2016).

Overall, therefore, total Loans to customers at 31 December 2017 stood at €228,673 million, with value adjustments of €19,707 million taking the general level of coverage for Loans to Customers to 8.6% (9.3% at 31 December 2016). The overall reduction in the coverage ratio is substantially due to the contraction of the impact of impaired loans on the aggregate of Loans to customer.

For the management and recovery of problematic loans (non-performing and unlikely to pay), the Bank uses the services offered by doBank S.p.A., a bank specialised in loan recovery.

The summary table below provides additional details:

## Loans to customers - Asset quality

(€ million)

	BAD EXPOSURES	UNLIKELY TO PAY	NON- PERFORMING PAST-DUE	TOTAL <sup>(*)</sup> NON- PERFORMING	PERFORMING	TOTAL LOANS
<b>As at 12.31.2017</b>						
Gross Exposure	17,742	14,395	552	32,689	195,984	228,673
as a percentage of total loans	7.76%	6.29%	0.24%	14.29%	85.71%	
Writedowns	12,104	6,471	216	18,791	916	19,707
as a percentage of face value	68.22%	44.95%	39.16%	57.56%	0.47%	
Carrying value	5,638	7,924	336	13,898	195,068	208,965
as a percentage of total loans	2.70%	3.79%	0.16%	6.65%	93.35%	
<b>As at 12.31.2016</b>						
Gross Exposure	19,155	17,059	618	36,832	198,239	235,071
as a percentage of total loans	8.15%	7.26%	0.26%	15.67%	84.33%	
Writedowns	12,996	7,594	246	20,836	998	21,834
as a percentage of face value	67.85%	44.52%	39.81%	56.57%	0.50%	
Carrying value	6,159	9,465	372	15,996	197,241	213,237
as a percentage of total loans	2.89%	4.44%	0.17%	7.50%	92.50%	

Note:

(\*) The perimeter of Non-Performing loans is equivalent to the perimeter of EBA NPE exposures.

Any discrepancy in the data shown in this table is solely due to roundings.



## Deposits from customers and debt securities in issue

Deposits from customers and debt securities in issue, totaling €262,084 million (-6.3% year on year), recorded a decrease of €17,564 million compared to the end of 2016 due to operating units in Italy for -€19,140 million and an increase attributable to operating units abroad for €1,576 million.

### Deposits from customers and debt securities in issue

(€ million)

	AMOUNTS AS AT		CHANGE	
	12.31.2017	12.31.2016	AMOUNT	%
Deposits from customers	197,139	196,521	+ 618	+ 0.3%
Debt securities in issue	64,945	83,127	- 18,182	- 21.9%
<b>Total deposits from customers and debt securities in issue</b>	<b>262,084</b>	<b>279,648</b>	<b>- 17,564</b>	<b>- 6.3%</b>
<i>of which:</i>				
- units operating in Italy	255,196	274,336	- 19,140	- 7.0%
- units operating abroad	6,888	5,312	+ 1,576	+ 29.7%

Deposits from customers came to €197,139 million, an increase of €618 million on the end of 2016.

More specifically:

- current accounts and demand deposits increased by €7,799 million;
- time deposits reduced by €968 million;
- repurchase agreements with customers reduced by €5.473 million;
- other types of deposits reduced by €740 million.

Debt securities in issue, equal to €64,945 million, decreased in 2017 for €18,182 million, mainly attributable to operating units in Italy that saw an overall decrease of €20,293 million, driven by bond issues (-€19,457), certificates of deposit (+€1,961 million) and to "buoni fruttiferi" (-€685 million); certificates of deposit with operating units abroad increased by €2,111 million.

## Financial Investments

In 2017 financial investments showed a decrease of €3,096 million (2.9%) resulting from the combination of the changes in available-for-sale financial assets (-€4,807 million), in held-to-maturity investments (+€7 million), in investments in associates and joint ventures (+€1,210 million) and in financial assets at fair value through profit or loss (+€493 million).

### Financial investments

(€ million)

	AMOUNTS AS AT		CHANGE	
	12.31.2017	12.31.2016	AMOUNT	%
Financial assets at fair value through profit or loss	652	159	+ 493	n.s.
Available-for-sale financial assets	59,718	64,525	- 4,807	- 7.4%
<i>of which:</i>				
- equity investments	1,897	2,205	- 308	- 14.0%
- debt securities, equity instruments and investments funds units	57,821	62,320	- 4,499	- 7.2%
Held-to-maturity investments	762	755	+ 7	+ 1.0%
Equity investments	44,145	42,935	+ 1,210	+ 2.8%
<b>Total financial investments</b>	<b>105,278</b>	<b>108,374</b>	<b>- 3,096</b>	<b>- 2.9%</b>
<i>of which:</i>				
- units operating in Italy	105,262	108,360	- 3,098	- 2.9%
- units operating abroad	16	14	+ 2	+ 14.3%

More specifically:

- available-for-sale financial assets included €57,821 million in debt and equity securities and units in investment funds, decreased by €4,499 million primarily due to sales and redemption of government securities and €1.897 million in equity interests. Equity interests included in this portfolio posted an annual decrease of €308 million, mainly attributable to:
  - disposals totaling €307 million which resulted in the recognition of gains on disposal for about €48 million (of which: €20 million Istituto Europeo di Oncologia S.r.l., €18 million Eramet SA);
  - changes in fair value recognised in equity for a total of €36 million (of which €32 million ERG S.p.A.);
  - impairment losses posted to the income statement for a total of -€63 million (of which: -€30 million Delfin Holding S.r.l., -€18 million Eramet SA);
  - purchases and other increases for a total of €41 million (of which €30 million Delfin Holding S.r.l.);

# Results of the year

- the value of equity investments, equal to €44,145 million, decreased by €1,210 million, mainly driven by the combined effects arising from:
  - the write-downs of the investment (of which: -€83 million KOC Finansal Hizmetler AS, -€39 million UniCredit International Luxembourg, -€19 million Nuova Compagnia di Partecipazioni S.p.A., -€14 million i-Faber S.p.A.);
  - the write-up of the investment (of which: +€293 million UniCredit Bank AG, +€947 million UniCredit Bank Austria AG, +€5 million UniCredit Factoring S.p.A.).

## Interbank position

In the fourth quarter of 2017, the Bank went on in executing the Yearly Funding Plan carrying out the diversification of the funding mix in order to exploit all the Group liquidity hubs and enhancing the cost of medium long-term funding.

At the end of December, around 60% of the Funding Plan was completed, coherently with the relevant liquidity generated by the other sources of liquidity as the commercial network and the so called *Targeted Long Term Refinancing Operations* (TLTRO), provided to the European banking system by European Central Bank in March 2017.

Finally, the Bank executed successfully the first three issues under the US GMTN Programme, placed to Institutional Investors in April and June.

As regards the cost of funding, in 2017 the Bank over-performed the expectations in terms of the medium long-term interest rate spread over Euribor rate paid to Investors.

## Shareholders' Equity

Shareholders' Equity at 31 December 2017 amounted to €53,508 million, an increase of €20,811 million compared to 31 December 2016, attributable to:

- +€13,000 million due to the subscription of the capital increase approved by the Extraordinary Shareholders Meeting of 12 January 2017 by issuing No. 1,606,876,817 ordinary shares; the capital increase fully paid-up was attributed for €16 million to share capital and €12.984 million as share premium;
- -€298 million for the charge to reserve of the expenses relating to capital increase (net of taxes);
- +€15 million for the sale of unexercised options relating to the aforementioned capital increase;
- +€78 million from the adjustment to the reserve dedicated to Equity Settled Share Based Payments;
- +€2,227 million from the issuance of Additional Tier 1 Notes recorded net of transaction cost in item "Equity Instrument";
- +€8 million from allocation to reserve tax impact on transaction cost and placement fees of the above equity instruments;
- -€32 million from the usufruct fees related to financial instruments ("Cashes") involving almost all the shares subscribed by Mediobanca S.p.A., during the corresponding capital increase in 2009;
- -€176 million from the allocation to the reserves of the coupon paid to subscribers of Additional Tier 1 notes (net of taxes);
- -€4 million from the allocation to the reserve connected to Equity Settled Share Based Payments where the Bank opted for the cash settlement;
- -€3 million from the allocation to the purchase cost reserve of the "free shares" granted to group employees who had subscribed to the broad-based share plan;
- -€37 million for negative reserves arising from merger of subsidiaries Buddy Servizi Molecolari S.p.A. and Pioneer Global Asset Management ("PGAM");
- -€72 million from negative effects deriving from the non-sustainability of the tax benefits connected to the shareholders' equity items;
- -€131 million from the net effect deriving from revaluation reserves, of which: -€107 million from available-for-sale financial assets; -€39 million from cash flow hedges and +€15 million from defined benefit plans;
- +€6,236 million from the profit for the period.

It should be noted that the following significant changes occurred in 2017 which, though reflected among the various components of shareholders' equity, did not change the overall amount thereof:

- following the resolutions of the Shareholders' Meeting of 20 April 2017 occurred: (i) the coverage of the loss from the 2016 financial year (€11,460 million) through the use of the Share premium reserve; (ii) coverage of the negative reserves totaling €3,511 million through use of Profit reserves (€369 million), Capital reserves (€633 million) and Share premium reserve (€2,509 million); (iii) allocation to the reserve for the issue of the shares connected to the medium term incentive plan for Group personnel (€60 million) through withdrawal from Statutory reserve;
- the increase of €18 million in share capital following the resolution of the Board of Directors of 13 March 2017 executed through a withdrawal from the specifically constituted reserve, for the issue of the shares connected to the medium term incentive plan for Group personnel.

## Shareholders' Equity

(€ million)

	AMOUNTS AS AT		CHANGE	
	12.31.2017	12.31.2016	AMOUNT	%
Share capital	20,881	20,847	+ 34	+ 0.2%
Share premium	13,400	14,385	- 985	- 6.9%
Equity instruments	4,610	2,383	+ 2,227	+ 93.5%
Reserves	7,798	5,828	+ 1,970	+ 33.8%
Reserves for special revaluation laws	277	277	-	-
Treasury shares	(2)	(2)	-	-
<b>Total capital and reserves</b>	<b>46,964</b>	<b>43,718</b>	<b>+ 3,246</b>	<b>+ 7.4%</b>
Revaluation reserves	308	439	- 131	- 29.8%
Net profit or loss	6,236	(11,460)	+ 17,696	n.s.
<b>Total Shareholders' Equity</b>	<b>53,508</b>	<b>32,697</b>	<b>+ 20,811</b>	<b>+ 63.6%</b>

## Capital Strengthening

On 12 January 2017 the Shareholders' Meeting approved the share capital increase, completed on 2 March 2017 through the issuance of No.1,606,876,817 no par value new ordinary shares for an overall amount of €12,999,633,449.53 (of which €16,068,768.17 as share capital and €12,983,564,681.36 as share premium). The issue is one of the pillars of the 2016-2019 Strategic Plan and allowed a significant strengthening of the Group's capital ratios.

The Shareholders' Meeting also approved a reverse stock split of ordinary and savings shares based on a ratio of 1 new ordinary or savings share for every 10 existing ordinary or savings shares.

On 13 March 2017 UniCredit's Board of Directors, pursuant to the powers conferred by the Extraordinary Shareholders' Meeting of 11 May 2012, Extraordinary Shareholders' Meeting of 11 May 2013, Extraordinary Shareholders' Meeting of 13 May 2014 and the Extraordinary Shareholders' Meeting of 13 May 2015, resolved to increase the share capital by €17,587,596.70 by issuing No.1,034,172 ordinary shares to be granted to the employees of UniCredit group.

The share capital, fully subscribed and paid up amounts to €20,880,549,801.81 divided into No.2,225,945,295 shares with no face value, of which No.2,225,692,806 ordinary shares and No.252,489 savings shares.

On 4 December 2017 UniCredit S.p.A. Extraordinary Shareholders' Meeting and the Special Meeting of Savings Shareholders approved actions to strengthen its own corporate governance and to simplify the Bank's share capital structure, along with the consequent amendments to the Company Articles of Association:

### *Elimination of the 5% limit for the exercise of the voting rights.*

The elimination of the 5% limit for the exercise of the ordinary shareholders voting rights aligns UniCredit governance to the principle in which the voting system is proportional to the invested capital (the so-called "one share one vote" principle). Thus principle, besides being in line with the international best practices, is generally considered desirable as it aligns economic interests with voting power and supports a higher active role of the shareholders in the decision-making process.

### *Mandatory conversion of savings shares into ordinary shares*

Mandatory conversion of the outstanding No.252,489 saving shares into ordinary shares, with a conversion ratio of No.3.82 ordinary shares with regular dividend rights for each No.1 savings share converted, plus an additional cash adjustment equal to €27.25 per savings share.

The conversion of savings shares into ordinary shares strengthens the share capital, as these shares do not concur in the calculation of the Core Tier 1, and aims at simplifying the capital structure and the corporate organisation of the Company, with subsequently cost savings. The aforementioned simplification carries out benefits for all the shareholders and, with specific reference to the current savings shares, their holders, who, under the conditions required by law, are entitled to exercise the right of withdrawal pursuant Art.2437 of the Italian Civil code, will benefit from the significant increase of the liquidity of the shares held. In fact, the conversion of relatively non-liquid savings shares will lead them to hold ordinary shares having a significantly higher liquidity.

The conversion will not involve variation of the share capital value; cash adjustment will be paid through Share Premium Reserve.

# Results of the year

In 2017 UniCredit S.p.A. placed additional issues of Additional Tier 1 instruments (so-called Non-Cumulative Temporary Write-Downs) to institutional investors, with a "perpetual" duration (maturity linked to the corporate duration of UniCredit S.p.A.), in particular:

- on 22 May 2017 UniCredit S.p.A. placed Additional Tier 1 notes, for a total amount of €1,250 million callable by the Issuer after 5.5 years (June 2023) and thereafter at any interest payment date. Notes pay fixed rate coupons of 6.625% per annum for the initial 5.5 years on a semi-annual basis; if not redeemed, coupon will be reset every 5 years to the then 5-Years Mid-Swap rate +638.7 bps.
- on 20 December 2017 a further placement of Additional Tier 1 notes for a total amount of €1,000 million callable by the Issuer after 7.5 years (June 2025) and thereafter at any interest payment date. Notes pay fixed rate coupons of 5.375% per annum for the initial 7.5 years on a semi-annual basis; if not redeemed, coupon will be reset every 5 years to the then 5-Years Mid-Swap rate +492.57 bps.

The additional Tier 1 instruments contributed to strengthening the Tier 1 Ratio of UniCredit S.p.A. and reach the minimum requirement of 1.50% of AT1. These latest issues are part of the €3.5 billion of additional Tier 1 forecast for 2017-19, of which only €750 million remain to be made after the transaction made in December 2016 and in May 2017.

In line with the regulatory requirements, the coupon payments are fully discretionary.

## Shareholders

The share capital, fully subscribed and paid up, amounts to €20,880,549,801.81 divided into No.2,225,945,295 shares with no face value, of which No.2,225,692,806 ordinary shares and No.252,489 savings shares.

As at 31 December 2017, according to the analyses performed using data from heterogeneous sources, including the content of the Register of Shareholders, the documentation relating to the participation in the shareholders' meeting of the Company, communications to CONSOB, public filings available on the market:

- shareholders were approximately 370,000;
- resident shareholders held around 22.18% of the capital and foreign shareholders 77.82%;
- 89.51% of the ordinary share capital is held by legal entities, the remaining 10.49% by natural persons.

Also as of that date, the main shareholders, those holding significant shareholdings exceeding 3%, according to communications received in accordance with current legislation, who are not entitled to the exemption from the mandatory communication as set forth under Art.119bis of Consob Regulation No.11971/1999, are:

### Principal UniCredit shareholders

SHAREHOLDER	ORDINARY SHARES	% OWNED <sup>(1)</sup>
Capital Research and Management Company	112,889,777	5.072% <sup>(2)</sup>
Aabar Luxembourg S.a.r.l.	112,141,192	5.038%

#### Notes:

(1) As a percentage of ordinary capital.

(2) Non-discretionary asset management.

## Treasury shares

The number of treasury shares in portfolio at the end of 2017 reflects the reverse stock split based on a ratio of 1 new ordinary or savings share for every 10 existing shares, in preparation for the subsequent capital increase approved by the Extraordinary Shareholders' Meeting of 12 January 2017.

Carrying value remain unchanged from 2016 year-end due to the fact that there were no transactions involving treasury shares in first the half of 2017.

### Treasury shares

Number of ordinary shares as at 12.31.2017	4,760
% on capital stock	n.s.
Carrying value as at 12.31.2017 €	2,440,001

# Capital and Value Management

## Principles of value creation and disciplined capital allocation

In order to create value for the shareholders, the Group's strategic guidelines aimed at optimising the composition of its business portfolio. This goal is pursued through a process of capital allocation to each business line in relation to its specific risk profile and ability to generate sustainable earnings measured as EVA (Economic Value Added), which is the main performance indicator relating to TSR (Total Shareholder Return). The development of Group operations with a view to value creation requires a process for allocating and managing capital governed by different phases in the process of planning and control, articulated as:

- formulation of the proposed appetite for risk and capitalisation targets;
- analysis of the risks associated with the value drivers and resulting allocation of capital to the business lines and to the Business Units;
- assignment of performance targets in line with risk;
- analysis of the impact on the Group's value and of the creation of value for shareholders;
- drafting and proposal of the financial plan and dividend policy.

The process of capital allocation is based on a "dual track" logic, considering both economic capital, measured through the full evaluation of risks by risk management models, and regulatory capital, quantified applying internal capitalisation targets to regulatory capital requirements.

## Capital Ratios

The Group dynamically manages its capital base by monitoring regulatory capital ratios, anticipating the appropriate changes necessary to achieve its targets, and optimising the composition of its assets and equity. Planning and monitoring refer, on the one hand, to the own funds (Common Equity Tier 1, Additional Tier 1 and Tier 2 Capital) and, on the other hand, to the Risk-Weighted Assets (RWAs). The Risk-Weighted Assets, for portfolios managed using the internal advanced model, not only depend on the nominal value of the assets but also on the relevant credit parameters. Besides volume dynamics, it is also crucial to monitor and forecast the change in the loan quality of the portfolio in view of the macroeconomic scenario (the so-called pro-cyclical effect).

### Transitional Own Funds and Capital Ratios

(€ million)

	AMOUNTS AS AT	
	12.31.2017 <sup>(*)</sup>	12.31.2016 <sup>(*)</sup>
Common Equity Tier 1 Capital	46,458	28,697
Tier 1 Capital	51,717	31,874
Total own funds	60,332	40,649
Total RWA	202,121	200,612
<b>Common Equity Tier 1 Capital Ratio</b>	<b>22.99%</b>	<b>14.30%</b>
<b>Tier 1 Capital Ratio</b>	<b>25.59%</b>	<b>15.89%</b>
<b>Total Capital Ratio</b>	<b>29.85%</b>	<b>20.26%</b>

**Note:**

(\*) Transitional own funds and capital ratios including all transitional adjustments according to the yearly applicable percentages.

The economic and financial crisis, which began in 2007, has raised an intense debate on the need to promote a stronger financial system, more resilient to external shocks.

Therefore, over the last years, global regulators introduced a series of new regulatory requirements that have contributed greatly to re-shape the financial markets landscape. In particular, in December 2010, the Basel Committee for Banking Supervision (BCBS) published an additional series of significant changes relating to the global standard requirements for banking institutions on capital and liquidity, also known as "Basel 3". The regulatory changes introduced by the Basel 3 framework define more stringent rules for capital requirements levels and introduce for the first time liquidity and leverage limits. According to the Basel 3 framework, the new rules are introduced gradually in order to allow the banking system to comply with the new requirements and contain the impact on the real economy. In Europe, the Basel 3 framework has been translated into law by means of two separate legislative instruments applied from 1 January 2014: Directive 213/36/EU (CRD) and Regulation 575/2013/EU (CRR). In addition, in December 2013 Banca d'Italia published Circular 285 which updated and adjusted to the new international regulation framework the rules applicable to Italian banks and banking groups.

In addition, Council Regulation 1024/2013/EU of 15 October 2013 (Regulation "SSM" - Single Supervisory Mechanism) conferred specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions.

Over the years, several regulations delegated by the Commission and regulations of the European Central Bank were published with the aim of disciplining specific regulatory issues.

# Results of the year

Pursuant to article 92 of CRR, the following minimum capital requirements should be met: Common Equity Tier 1 (CET1) ratio at 4.5%, Tier 1 ratio at 6% and Total Capital ratio at 8%.

Additionally to these minimum requirements, also the combined buffer requirement should be met, as defined in article 128(6) of CRD. Failure to comply with such combined buffer requirement triggers restrictions on distributions, up to a limit which is defined as Maximum Distributable Amount (MDA), and the need to adopt a capital conservation plan.

The combined buffer requirement applicable to UniCredit at consolidated level includes the following reserves:

- a Capital Conservation Buffer (CCB) set at 1.25% by Banca d'Italia<sup>3</sup> for all the Italian banking groups;
- an institution specific Countercyclical Capital Buffer (CCyB) to be applied in periods of excessive credit growth, for UniCredit group equal to 0.03% as at 31 December 2017. This buffer is calculated on a quarterly basis, depending on the geographical distribution of the relevant Group's credit exposures and on national authorities' decisions which define country-specific buffers. As of 31 December 2017 only the national authorities of Sweden, Iceland, Norway, Czech Republic, Slovakia and Hong Kong have defined countercyclical capital buffers different from 0% (respectively 2%, 1.25%, 2%, 0.5%, 0.5% and 1.25%). According to the transitional rules set by Banca d'Italia, the maximum capital requirement (cap) for 2017 is equal to 1.25%, to be covered by Common Equity Tier 1 capital; the requirement will increase by 0.625% per year and will reach 2.5% from 1 January 2019;
- a Global Systemically Important Institutions ("G-SII") capital buffer; for UniCredit group, identified by Banca d'Italia as G-SII authorised to operate in Italy<sup>4</sup>, the requirement is equal to 0.50% for 2017. This buffer will have to increase annually by 0.25% in order to reach 1% from 1 January 2019. UniCredit group is classified in the first subcategory of the Systemically Important Institutions according to the transitional provisions as defined by Directive 2013/36/EU (Capital Requirements Directive IV - CRD IV);
- an Other Systemically Important Institutions ("O-SII") buffer, equal to 0%. Banca d'Italia identified UniCredit group, Intesa Sanpaolo and Monte dei Paschi di Siena banking groups as O-SIIs authorised to operate in Italy. The "O-SII buffer" for UniCredit will be increased annually by 0.25% from 1 January 2018 in order to reach 1% no later than 1 January 2021<sup>5</sup>. However, it should be considered that article 131, paragraph 14 of CRD IV requires that the highest buffer between G-SII and O-SII is applied (therefore UniCredit group will have to comply with the requirement linked to G-SII capital reserve, equal to 0.50% for 2017);
- a capital reserve against systemic risk (Systemic Risk Buffer) aimed at preventing and mitigating the systemic or macro prudential non-cyclical risk in the long run, not included in CRR (not applicable at 31 December 2017).

Additionally, UniCredit group is required to satisfy the capital requirements that are defined on a yearly basis, following the results of the Supervisory Review and Evaluation Process (SREP) performed by the European Central Bank (ECB) in application of article 16(2) of SSM Regulation.

Following the result of SREP 2016, the ECB has set a Pillar 2 Requirement (P2R) for UniCredit group equal to 2.5%.

As a consequence from 1 January 2017, based on the application of Directive EBA/GL/2014/13 (European Banking Authority), the following Total SREP Capital Requirements (TSCR), which encompass the minimum capital requirements and the Pillar 2 Requirements, apply to UniCredit on a consolidated basis:

- 7% CET 1 ratio;
- 8.5% Tier 1 ratio;
- 10.5% Total Capital ratio.

Similarly, the following Overall Capital Requirements (OCR), which encompass both the Combined Buffer Requirement and the TSCR, apply to UniCredit on a consolidated basis:

- 8.78% CET 1 ratio;
- 10.28% Tier 1 ratio;
- 12.28% Total Capital ratio.

The abovementioned requirements are the ones which are relevant for MDA purposes for UniCredit group as of 31 December 2017.

<sup>3</sup> Based on the 18th update of Circular 285 of Banca d'Italia (published on 6 October 2016) which provides for the modification of capital preservation requirement, national regulations are aligned with the transitional rules as required by the CRD both at UniCredit S.p.A. and Group level: the reserve of capital preservation equal to 1.25% for 2017 will be subsequently increased annually by 0.625% until the achievement of 2.5% by 1 January 2019.

<sup>4</sup> The decision was taken pursuant to Circular 285 of Banca d'Italia on prudential regulations for banks. The Circular implements the CRD IV rules in Italy and specifies the criteria on which the G-SIIs identification methodology is based. This methodology applied to identify and classify the G-SIIs among the various subcategories is defined in the delegated Regulation No.1222/2014 of the European Commission. The regulation contains provisions consistent with the rules set by the Basel Committee on Banking Supervision and the Financial Stability Board (FSB), in order to ensure that each year the banks identified as G-SIIs correspond to the European banks included on the FSB list, also published annually.

<sup>5</sup> The decision to identify the three banking groups as O-SIIs was taken pursuant to Banca d'Italia Circular 285 on prudential regulations for banks, which implements Directive 2013/36/EU (Capital Requirements Directive, CRD IV) in Italy and specifies the criteria on which the O-SIIs identification is based. The assessment was carried out following the European Banking Authority Guidelines (EBA/GL/2014/10), which set out the criteria and the data required to identify the O-SIIs in the European Union jurisdictions. The Guidelines are consistent with the rules set by the Basel Committee on Banking Supervision to identify systemically important banks at national level, the goal being uniformity in the identification process at international level.

As of 31 December 2017, UniCredit group's ratios are compliant with all the above requirements.

For 2017, the Board of Directors, proposes to distribute dividend for €726 million, equal to a share of 20% of the net profit of the period, excluding the P&L impact arising from the disposal of equity investments in Bank Pekao S.A., of the shares in equity investments in the Polish companies (Pioneer Pekao Investment Management S.A., Pekao Pioneer PTE S.A. and Dom Inwestycyjny Xelion Sp. Z.o.o.) and of "Pioneer Investments".

## **SREP 2017**

Within the Supervisory Review and Evaluation Process (SREP) 2017, the Single Supervisor has lowered UniCredit's SREP Pillar 2 Capital Requirement (P2R) by 50 basis points to 200 basis points; as a consequence, UniCredit is required to meet the following transitional capital requirements on a consolidated basis from 2018:

- 9.19% CET1 ratio;
- 10.69% Tier 1 ratio;
- 12.69% Total Capital ratio.

All transitional capital ratios are inclusive of 2.00% P2R, 1.88% Capital Conservation Buffer (CCB), 0.75% G-SII buffer and an estimated 0.06% Countercyclical Capital Buffer (CCyB).

# Organizational Model

## Significant organisational changes in 2017

On 21 September 2017, the Board of Directors approved a new organisational role: the Chief Lending Officer responsible for coordinating and managing all credit granting activities for UniCredit S.p.A.

## Organisational structure

UniCredit group organisation reflects an organisational and business model that maintains a divisional structure for the governance of the Corporate Investment Banking business/products and the business in the CEE Countries, as well as overall control over the COO functions, by ensuring the autonomy of the Countries/Banks for specific activities, in order to guarantee increased proximity to the client and faster decision-making processes. Specifically:

- the **Chief Executive Officer (CEO)** maintain a direct supervision on the definition of Group Strategy, Risks Compliance, Human Resources, on the optimisation of structure costs and on the main operating activities;
- the **General Manager (GM)** is responsible for all the business activities (Retail, Corporate, Global CIB, Asset Gathering (Fineco) and relevant Countries where the Group is present) focusing on the ongoing development of clients services aiming to maximise the cross selling and leading the Group digital strategies, as well as defining the new service model of the Bank;
- the **Chief Operating Office (COO)**, position covered by two co-Heads (co-Chief Operating Officers) who lead the oversight of the operational structure with a specific focus on Costs and on IT & Operations; in particular the two co-Heads are respectively responsible for Finance & Cost Management and for IT & Operations, Security and Internal Controls;
- the **CIB Division**, position covered by two co-Heads directly reporting to General Manager, has a coverage role for the multinational customers ("Multinational"), for selected "Large corporate" clients with a strong potential demand for investment banking products, for the Financial and Institutional Groups (FIG) customers, "Global Family Office" and for the Global Lines "Global Transaction Banking (GTB)", "Global Financing & Advisory (F & A)", "Markets" and for internationalisation activities;
- the **CEE Division** coordinates the Group's activities in the countries of Central and Eastern Europe, aligning them to a single comprehensive business vision in the area;
- **Group Institutional & Regulatory Affairs** is responsible for developing the relations with institutional counterparts of interest for Group activities and managing the relationship with European Banking Supervisory Authorities (e.g. EBA, ECB) and Banca d'Italia;
- as far as the Italian perimeter is concerned, the **co-Heads Italy**, directly reporting to General Manager, are responsible for the definition of the business strategies of the "commercial banking" and the assignment of such strategies to the territories and to the client segments (Family, First, Business First, Corporate and Private Banking);
- the functions called **Competence Lines** (Internal Audit, Planning, Finance & Administration, Risk Management, Legal, Compliance, Lendings and Identity & Communications, Human Capital) oversee the guidance, coordination and control of the Group's activities and manage the related risks.



# Company activities

## The commercial network

### Operating structure in Italy

During 2017, UniCredit domestic network was subject to the changes described below:

- closure of **391 branches** and **27 detached branches** of the Commercial Banking Network;
- re-organisation of the Commercial Banking Network;
- partial re-organisation of Private Banking Network.

As a result of the above, the structure of the domestic network at 31 December 2017 consisted of a total of **3,087** units, broken down as follows:

- **Commercial Banking: 2,663** operating branch offices, of which 2,450 primary branches and 213 secondary branches;
- **Other commercial banking structures: 244** of which 78 detached branches, 57 retail branches to particular operations, 84 detachments, 17 Corporate Operating Branches, 7 Real Estate Areas, 1 CEE CIB Branch.

On the territory, in coexistence with the structures described above, there are 51 Corporate Areas, 5 Large Corporate areas, 32 Special Network Corporate Centres, 7 "Foreign Trade Centres" and 35 "Foreign Trade Offices", this last dealing with technical-operational activities linked to international trade (documentary credits, documentary transactions, sureties and guarantees, import-export/gold portfolio).

- **Private Banking: 176** Branches, of which 54 Private Areas (Primary Branches), 119 Detached Branches and 3 Wealth Management Corners, servicing medium-to-high net worth private customers and providing 360-degree consultancy services and wealth management solutions. The Commercial Bank consisted of 7 Regions, 140 Commercial Areas and 2 Pawn Areas, to which the operating branch offices report.
- **CIB: 4** licenses. CIB Italy operates with 1 Network Direction, 1 Area, 2 Operational Branches (Rome and Milan) and 6 CIB Centres, servicing a select group of Italian "Multinational" and "Large Corporate" customers with high investment banking product needs.

At 31 December 2017, following the initiatives described above and a small-scale branch reorganisation resulting from the ongoing optimisation and streamlining process of organisational units, the Italian distribution network was structured as follows:

#### Italian branch network

REGION	COMMERCIAL BANKING BRANCHES	COMMERCIAL BANKING OTHER STRUCTURES	PRIVATE BANKING	CIB	NUMBER OF OFFICES AS AT 12.31.2017	% BREAKDOWN
- Piedmont	271	21	25	-	317	10.3%
- Valle d'Aosta	13	2	1	-	16	0.5%
- Lombardy	326	27	26	2	381	12.3%
- Liguria	47	2	6	-	55	1.8%
- Trentino Alto Adige	48	-	3	-	51	1.7%
- Veneto	308	25	22	-	355	11.5%
- Friuli Venezia Giulia	89	7	4	-	100	3.2%
- Emilia Romagna	333	32	24	1	390	12.6%
- Tuscany	113	9	7	-	129	4.2%
- Umbria	63	3	2	-	68	2.2%
- Marche	53	8	4	-	65	2.1%
- Lazio	346	63	22	1	432	14.0%
- Abruzzo	30	3	2	-	35	1.1%
- Molise	26	2	1	-	29	0.9%
- Campania	131	11	8	-	150	4.9%
- Puglia	106	5	6	-	117	3.8%
- Basilicata	9	-	1	-	10	0.3%
- Calabria	19	2	1	-	22	0.7%
- Sicily	291	19	9	-	319	10.3%
- Sardinia	41	3	2	-	46	1.5%
<b>Total branches</b>	<b>2,663</b>	<b>244</b>	<b>176</b>	<b>4</b>	<b>3,087</b>	<b>100.0%</b>

# Company activities

In particular, the network of the Commercial Bank is detailed as follows for Region and Commercial Areas:

ITALIAN BRANCH NETWORK	NUMBER OF COMMERCIAL AREAS	BRANCHES	OTHER BRANCHES	PRIVATE BANKING	CIB	NUMBER OF BRANCHES
Region North-West	18	331	25	32	-	388
Region Lombardia	17	326	27	26	2	381
Region North-East	23	445	31	29	-	505
Region Centre-North	28	562	52	37	1	652
Region Centre	23	443	72	27	1	543
Region South	16	265	18	16	-	299
Region Sicily	15	291	19	9	-	319
<b>Total</b>	<b>140</b>	<b>2,663</b>	<b>244</b>	<b>176</b>	<b>4</b>	<b>3,087</b>

In addition to the 140 Retail Areas, there are 2 Pawn Areas, located in the Region Centre and Sicily.

## Branches and representatives abroad

At 31 December 2017 UniCredit S.p.A. had nine Branches abroad, plus a Permanent Establishment in Vienna and five Representative Offices:

### UniCredit S.p.A. international network as at 12.31.2017

BRANCHES	PERMANENT ESTABLISHMENT	REPRESENTATIVE OFFICES
PRC - Shanghai	AUSTRIA - Wien	BELGIUM - Brussels
PRC - Guangzhou		BRAZIL - Sao Paulo <sup>(*)</sup>
GERMANY - Munich		PRC - Beijing
GERMANY - Munich <sup>(*)</sup>		INDIA - Mumbai
UNITED KINGDOM - London		LYBIA - Tripoli
UNITED STATES - New York		
FRANCE - Paris		
SPAIN - Madrid		
UNITED ARAB EMIRATES - Abu Dhabi		

**Notes:**

(\*) Formerly Branch of UniCredit Family and Financing Bank.

(\*\*) Through the subsidiary BAVÁRIA SERVIÇOS DE REPRESENTAÇÃO COMERCIAL LTDA.

## Resources

### Personnel developments

At 31 December 2017, UniCredit S.p.A.'s headcount is No.38,952 compared to No.42,424 at 31 December 2016. The reduction of resource is mainly due to restructuring plan.

#### Category

	31.12.2017		12.31.2016		CHANGE	
	TOTAL	OF WHICH: OUTSIDE ITALY	TOTAL	OF WHICH: OUTSIDE ITALY	IN TOTAL	PERCENT
Senior Management	855	8	1,016	9	-161	- 15.9%
Management - 3 <sup>rd</sup> and 4 <sup>th</sup> grade	7,885	45	8,414	47	-529	- 6.3%
Management - 1 <sup>st</sup> and 2 <sup>nd</sup> grade	11,905	5	12,826	4	-921	- 7.2%
Other Staff	18,307	14	20,168	14	-1,861	- 9.2%
<b>Total</b>	<b>38,952</b>	<b>72</b>	<b>42,424</b>	<b>74</b>	<b>-3,472</b>	<b>- 8.2%</b>
<i>of which, Part-time staff</i>	5,314	-	5,498	-	-184	- 3.4%

The composition of the workforce by seniority and by age bracket is shown in the following tables. With respect to educational level, 36% of UniCredit S.p.A. employees have university degrees (mostly in the areas of economics and banking, or law). Women make up 45% of personnel.

#### Breakdown by seniority

	31.12.2017		12.31.2016		CHANGE	
	NUMBER	PERCENT	NUMBER	PERCENT	AMOUNT	PERCENT
Up to 10 years	5,660	14.5%	7,200	17.0%	-1,540	- 21.4%
From 11 to 20 years	12,021	30.9%	11,046	26.0%	+975	+ 8.8%
From 21 to 30 years	11,588	29.8%	12,531	29.5%	-943	- 7.5%
Over 30 years	9,683	24.9%	11,647	27.5%	-1,964	- 16.9%
<b>Total</b>	<b>38,952</b>	<b>100.0%</b>	<b>42,424</b>	<b>100.0%</b>	<b>-3,472</b>	<b>- 8.2%</b>

#### Breakdown by age

	31.12.2017		12.31.2016		CHANGE	
	NUMBER	PERCENT	NUMBER	PERCENT	AMOUNT	PERCENT
Up to 30 years	1,018	2.6%	1,128	2.7%	-110	- 9.8%
From 31 to 40 years	7,052	18.1%	7,950	18.7%	-898	- 11.3%
From 41 to 50 years	13,290	34.1%	13,834	32.6%	-544	- 3.9%
Over 50 years	17,592	45.2%	19,512	46.0%	-1,920	- 9.8%
<b>Total</b>	<b>38,952</b>	<b>100.0%</b>	<b>42,424</b>	<b>100.0%</b>	<b>-3,472</b>	<b>- 8.2%</b>

With regard to training, managerial growth, union relations, environment and occupational safety, refer to the chapter "Human Capital" in the Integrated Report. This document, published on the institutional website, describes how UniCredit creates sustainable value that has a positive impact on society by supporting the advancement of local communities, the competitiveness of enterprises and the well-being of individuals. The Integrated Report of UniCredit constitutes a Non-Financial Statement pursuant to articles 3 and 4 of Legislative Decree 254/2016.

## Other information

### Report on corporate governance and ownership structure

Within the meaning of Art.123-bis par.3 of the Legislative Decree No.58 dated 24 February 1998, the "Report on corporate governance and ownership structure" is available in the "Governance" section of the UniCredit website (<http://www.unicreditgroup.eu>).

### Report on remuneration

Pursuant to Art.123-ter of the Legislative Decree dated 24 February 1998 No.58 and of Art.84-quater, of the Consob Issuers' Regulations, the "Report on remuneration" is available on UniCredit's website (<http://www.unicreditgroup.eu>).

### Non-financial information

Pursuant to articles 3 and 4 of Legislative Decree 254/2016, the Integrated Report, published on UniCredit website (<http://www.unicreditgroup.eu>) constitutes the Non-financial Declaration.

### Research and development projects

In 2017, UniCredit S.p.A.'s Research & Development Department primarily focused on:

- the development of a low latency e-Trading FX platform, commissioned by the CIB division;
- evolving a digital tool allowing the mapping and analysis of financial conglomerates by integrating internal and external data sources, to the benefit of the CEE division;
- the development of a tool for HR Rewards & Benefits that tracks stocks owned by the Group's Senior Management;
- researching FPGA-based hybrid architectures and how those can be employed to accelerate computations in the financial domain.

### Group activities development operations and other corporate transactions

#### Initiatives deemed to sustain new Strategic Plan

##### Bank Pekao

On 7 June 2017, the sale of the stake (32.8%) held in Bank Pekao was completed at Powszechny Zakład Ubezpieczeń S.A. ("PZU") and Polski Fundusz Rozwoju S.A. ("PFR") at the agreed price per share (PLN 123) and therefore a total consideration of PLN 10.6 billion which implied the loss of control; a residual 6.3% stake has been consequently recognised into "Financial asset at fair value through profit or loss" with a carrying value, as at 31 December 2017, of €509.4 million.

The transaction, already described in the financial statements as of 31 December 2016, coincides with the issue in December 2016 of mandatory settled equity-linked certificates guaranteed as pledge on the remaining shares held by Bank Pekao. This operation allows to complete by December 2019 the entire shareholding in Bank Pekao and to maintain an exposure to the potential appreciation of Bank Pekao's shares due to the additional value that can be made by the two new shareholders (PZU and PFR).

On 11 December 2017, the transfer to the same Bank Pekao of the shares in the Polish companies (Pioneer Pekao Investment Management S.A., Pekao Pioneer S.A. and Dom Inwestycyjny Xelion Sp. Z.o.o.) was finalised at a total price of €142 million, completing therefore the process of disposal of activities in Poland.

##### Pioneer Investments

On 3 July 2017, pursuant to the agreement signed in December 2016, Pioneer Global Asset Management ("PGAM") completed the sale of Pioneer Investments operating companies to Amundi, at the price of €3.5 billion. This operation has been already described in the consolidated financial statements at 31 December 2016.

The transaction, that impacted results of the third quarter of 2017, generated a net capital gain of approximately €2.1 billion for the Group.

As part of the transaction, UniCredit and Amundi formed a strategic partnership for the distribution of asset management products underpinned by a 10-year distribution agreement for Italy, Germany and Austria. UniCredit will re-focus on its distribution business model while retaining exposure to the commission income generated from the distribution of asset management products.

With an aim to simplify the structure of the Group as well as to reduce its costs, the merger of PGAM (a wholly-owned subsidiary which, following the transaction with Amundi, had lost the role of sub-holding) into UniCredit was completed on 1 November 2017. Following the incorporation of PGAM,

UniCredit holds direct control of some non-operating companies, as well as of the two companies in India, for which the sale and purchase agreement with Bank of Baroda was signed in December 2016.

## FINO Project

The "Transform 2019" 2016-2019 Strategic Plan includes the "FINO Project", aimed at divesting a significant amount of "Non-Core" assets belonging to UniCredit group through a market transaction. It pertains to credit exposures originally classified as Bad Exposures that originate from different sectors and were grouped into a portfolio conventionally referred to as "FINO Portfolio", with a net nominal value of €17,700 million at 30 June, 2016.

The FINO Project, which is analysed in more depth in the disclosure in UniCredit S.p.A. 2016 Reports and Accounts, consists of 2 phases, whose guidelines were defined in the Framework Agreements signed by UniCredit S.p.A. with two qualified third-party investors (Pimco and Fortress) in December 2016.

"Phase 1" consisted in initiating several securitisation transactions entailing the issuing of Asset-Backed Securities (Senior, Mezzanine and Junior) by Special Purpose Vehicles (SPVs or Vehicles) that are transferees of the receivables included in the FINO Portfolio, and with their relevant subscription by UniCredit S.p.A. (49.9% of all the classes of the securities issued) and by third-party Investors (50.1% of all the classes of the securities issued).

"Phase 2" entailed the application for a public rating to Senior and Mezzanine securities and granting of a GACS guarantee (Garanzia sulla Cartolarizzazione delle Sofferenze) on the Senior securities, as well as the gradual sale to third-party investors by UniCredit S.p.A. of securities that it had subscribed.

On 1 February 2017, the Bank's Board of Directors approved the FINO Project on the basis of the features and contents detailed in the aforementioned Framework Agreements (and relevant documentation attached), and tasked the Directors with implementing the initiatives required for its execution.

In full respect with the timing of the transaction, during the second half of 2017:

- "Phase 1" of the Project was finalised, through the sale of the receivables included in the FINO Portfolio and the issue of ABS securities by the SPV assignees of the receivables and the related underwriting by UniCredit S.p.A. (49.9% of all the classes of ABS securities issued) and third-party investors (for 50.1% of all the classes of ABS securities issued). The conditions required by IAS39 for the application of the accounting derecognition from the Balance Sheet of UniCredit S.p.A. were thus implemented, since the rights to cash out the cash flows deriving from the Portfolio have been transferred (the receivables were previously recognised in "Non-current assets and disposal groups classified as held for sale");
- as part of "Phase 2", it was pursued, also thanks to the GACS guarantee (following the MEF Decree of 20 December 2017) on the senior tranche (Class A) issued by one of the assignee SPVs of the receivables included in the FINO Portfolio, the progressive sell down to third party investors of the ABS securities originally underwritten by UniCredit S.p.A., in order to reduce the amount held below the threshold of 20% through multiple arm's length transactions settled by January 2018.

For a more detailed disclosure on FINO Project, see the information provided in Part E - Information on risks and hedging policies - Section 1 - Credit risk, under table "A.1.2 Breakdown of credit exposures by portfolio and credit quality (gross and net amounts)".

## Agreement with the Italian Trade Unions

On 4 February 2017 UniCredit announced it has reached an agreement with the Italian Trade Unions related to the announced Italian 3,900 FTEs redundancies part of the "Transform 2019" plan. The redundancy programme in Italy consists of a voluntary preretirement plan through the access to the Financial sector Solidarity Fund. To ensure a positive generational turnover the Group is committed to hire 1,300 people over the next 3 years.

## Sales of non-performing portfolios initiatives

The portfolios' sale is part of the overall UniCredit group's on-going strategy to reduce Non-Performing Exposure ("NPE") and to sell Non-Core assets aimed to strengthen its risk profile as part of UniCredit group's Transform 2019 plan.

### Sale of an Italian Consumer unsecured non-performing credit portfolio

On 16 June 2017 UniCredit S.p.A. has reached an agreement with MBCredit Solutions ("MBCS") in relation to the disposal on a non-recourse basis (pro-soluto) of a non-performing unsecured consumer credit portfolio, in Italy.

The portfolio consists entirely of Italian unsecured consumer credits with a gross book value of approximately €310 million. UniCredit and MBCS have also reached an agreement for the disposal of Italian unsecured consumer loans of the same nature, originated in the course of 2017. These further disposals have been partially realised in October 2017 for a nominal amount of €47 million.

## Other information

### UniCredit announces the sale of an Italian Small Medium Enterprise ("SME") secured and unsecured non performing credit portfolio

On 27 November 2017 UniCredit announced an agreement with MBCredit Solutions ("MBCS") and an affiliate of Cerberus Capital Management, L.P. ("Cerberus") in relation to the disposal on a non-recourse basis (pro-soluto) of a portfolio of Italian Small and Medium Enterprise ("SME") non performing secured and unsecured loans.

The portfolio consists entirely of Italian credits with a gross book value ("GBV") of approximately €715 million. MBCS has bought the unsecured portion with a GBV of approximately €450 million and Cerberus has bought the secured portion with a GBV of approximately €265 million.

### Other transactions and initiatives involving shareholdings

#### Contribution to Atlante and Italian Recovery Fund (former Atlante II)

Atlante is an Italian closed-end alternative investment fund, reserved for institutional investors ("Atlante Fund") and managed by Quaestio Capital Management SGR S.p.A. ("Questio SGR"). Total funds at the inception were €4.2 billion of which UniCredit contributed with a stake of 19.9%.

The investment policy of Atlante foresees that the fund may be invested (i) in banks with regulatory capital ratios lower than the minimum level set down in the SREP process and, thus, realise, upon request of the supervisory authority, actions of capital strengthening through capital increases and (ii) in Non-Performing Loans (NPLs) of a plurality of Italian banks.

As at 31 December 2017 UniCredit has been holding No.845 shares of Atlante Fund (out of No.4,249 total shares) classified as financial assets available for sale with a carrying value of €95 million net of additional impairment of €137 million (following the €547 million recognised in December 2016) following investments of €779 million, of which €93 million carried in 2017, and a residual commitment to invest €66 million.

In August 2016 Atlante II following renamed Italian Recovery Fund on 27 October 2017 was established; an alternative closed-end investment fund reserved for institutional investors and managed by Quaestio SGR as well. Italian Recovery Fund is allowed, unlike the Atlante fund, only to invest into NPLs and other instruments related to junior and mezzanine notes issued by SPVs of NPL securitisations from Italian banks (in line with institutional investors criteria) aiming at reducing the risk.

As at 31 December 2017 UniCredit, following the subscription of additional No.40 shares under the Fourth Closing in September 2017, has been holding No.195 shares with a carrying value, in line with subscription price, of €99 million, and a residual commitment to invest €96 million. As at 31 December 2017, total funds of Italian Recovery Fund were €2.48 billion (UniCredit stake 7.9%).

#### Buddy Servizi molecolari

After having been approved on 6 July 2017 by the Board of Directors of UniCredit S.p.A., the merger by incorporation of Buddy Molecular Services into UniCredit it was finalised on 1 August 2017, while preserving the original objectives of the initiative by creating a channel dedicated to digital customers within UniCredit as a commercial bank.

#### Sale of F2i and FII (Fondo Italiano di Investimento) SGR S.p.A. funds

During 2017 were completed the sales of the units held by the UniCredit group in funds:

- F2i, with a positive impact on P&L of €23 million in the third quarter;
- FII, with a positive impact on P&L of €21 million in the fourth quarter.

#### Sale of pledge credit in Italy

In November 2017, UniCredit signed a binding agreement with Dorotheum (Austrian auction house with a history of more than 310 years) for the sale of pledge loans in Italy.

The transaction involves the payment by Dorotheum of a consideration of €141 million at closing, as well as a potential earn-out in favor of UniCredit of up to €10 million to be paid out after three years of the sale.

Dorotheum, primary operator in the pledge credit sector that with this operation will become the largest operator in Europe, intends to expand its activities in Italy, leveraging its international experience and the skills of current workers, in order to further develop the business and the sector.

The transaction is expected to close during the first half of 2018 by transferring the assets to a new financial company that will be held entirely by the purchaser. The transaction is subject to the usual conditions precedent including the authorisation by the Supervisory Authority.

### **Istituto Europeo di Oncologia S.r.l.**

UniCredit, in the context of the Social Impact Banking programme aimed at improving the welfare of the communities in which UniCredit operates and financing projects that have positive impact on people, decided to support the initiative promoted by Mr. Leonardo Del Vecchio with the aim to realise a foundation that contributes at the development and the improvement of the Istituto Europeo di Oncologia S.r.l. ("IEO" - "non profit" clinical institute carrying out its activity in the research sector and oncology therapy).

In this context UniCredit transferred substantially its entire stake of 12.376% of IEO to Delfin H S.r.l., company that, after the Authority approval, will be transformed in the above foundation.

### **Sale of the investment in i-Faber S.p.A.**

Following a broader review aimed at rationalising the Group's equity investments, as well as focusing on core business, in the last quarter of 2017 UniCredit signed a letter of intent for the sale of the entire investment held in i-Faber S.p.A. to a primary sector operator. In consideration of the advanced status of the negotiations and the forecast of the disposal completion within 12 months, the investment was classified among assets held for sale (IFRS5) at 31 December 2017.

## **Other information on Group activities**

### **Cooperative compliance scheme**

On 21 July 2017 UniCredit and FinecoBank were the first banks in Italy to have been admitted to the cooperative compliance scheme pursuant to articles 3-7 of Legislative Decree 128/2015. This important achievement has been reached thanks to the match of both the subjective and objective requirements, that means to have an effective system for identifying, measuring, managing and controlling tax risk in line with the "essential" requirements of the Tax Control Framework envisaged by law, Revenue Agency ordinances and by the OECD documents published on the subject. This scheme, deemed to be effective as of 2016, the year in which the application was submitted, establishes a closer relationship of trust and cooperation with the Revenue Agency, helping to increase the level of certainty on significant tax issues under conditions of full transparency, through ongoing and prior discussions on situations likely to generate tax risks for UniCredit and FinecoBank.

### **Security breach**

On 26 July 2017 UniCredit announced it has been the victim of a security breach in Italy due to unauthorised access through an Italian third party provider to Italian customer data related to personal loans only.

A first breach seems to have occurred in September and October 2016 and a second breach which has been identified in June and July 2017. Data of approximately 400,000 customers in Italy is assumed to have been impacted during these two periods. No data, such as passwords allowing access to customer accounts or allowing for unauthorised transactions, has been affected, whilst some other personal data and IBAN numbers might have been accessed.

UniCredit has carried out an audit and has informed all the relevant authorities. UniCredit has also filed a claim with the Milan Prosecutor's office. The bank has also taken immediate remedial action to close this breach.

### **Euromoney Cash Management Survey**

Last September 2017 UniCredit communicated to have been ranked number one in Cash Management in 11 countries by the Euromoney Cash Management Survey 2017. The bank demonstrated its dominance and market leadership in Europe region with first-place rankings in Austria, Bosnia & Herzegovina, Bulgaria, Croatia, Czech Republic, Hungary, Italy, Romania, Serbia, Slovakia, and Turkey.

The 2017 Euromoney Cash Management Survey is the 16<sup>th</sup> annual survey of the leading providers of cash management products and services across the world. With responses this year from over 25,000 businesses and 2,500 financial institutions, the survey is the most authoritative and comprehensive ranking in the cash management industry.

### **UniCredit signed a memorandum of understanding with Société Générale Securities Services**

On 23 November 2017 UniCredit and Société Générale Securities Services (SGSS) announced their intention to renew their strategic partnership on securities services. Both partners have signed a memorandum of understanding on the extension of the current service management agreement for an additional 7 years. The agreement, in place since September 2006, covers custody, settlement and market data management services.

The extension of this partnership marks a milestone in the relationship between UniCredit and Société Générale and supports the sustainable and long-term growth of both institutions.

## Other information

### UniCredit to strengthen and promote best in class corporate governance

Last 4 December 2017 UniCredit Shareholders approved the corporate governance amendments proposed by the Board of Directors. In particular:

- the granting the Board of Directors with the power to submit its own list of candidates for the Director's office and increase to two Directors selected from the second list receiving the highest votes;
- the elimination of the 5% limit for the exercise of the voting rights;
- the mandatory conversion of savings shares into ordinary shares;
- the transfer of the registered office from Rome to Milan.

Further details on UniCredit official website as well as, for what relating to share capital, to the paragraph "Capital strengthening" of this Consolidated Report on Operations.

### Renewal of the Bancassurance partnership with CNP Assurances

On 20 December 2017, UniCredit S.p.A. and CNP Assurances SA announced the renewal of partnership in the life insurance business in Italy through the company CNP UniCredit Vita S.p.A., 57.5% held by CNP Assurances SA, 38.8% held by UniCredit S.p.A. and 3.7% held by BNP Paribas Cardif Vita Compagnia di Assicurazione e Riassicurazione S.p.A. ("Cardif"). With a duration of 7 years starting from 1 January 2018 (i.e. through 31 December 2024), the partnership takes the form of a shareholders' pact among CNP Assurances SA, UniCredit S.p.A. and Cardif, supplemented by a distribution agreement between UniCredit S.p.A. and CNP UniCredit Vita S.p.A. The geographical perimeter remains unchanged compared to previous agreements, covering mainly Central and Southern Italy, including Sardinia and Sicily.

### Conversion of tax credit

UniCredit S.p.A. closed 2016 financial year with a net loss of €11,460.1 million; so, the conditions for a new conversion of Deferred Tax Assets (DTA) into tax credits, pursuant to Art.2, paragraph 55, of Law Decree 29 December 2010 No.225 were met.

The conversion was carried out for an amount of €2,859.3 million.

In order to preserve for the future the regime of conversion of DTAs into tax credits, and in order to overcome the issues raised by the European Commission in connection to the application of State Aid rules, Art.11 of DL 3 May 2016 No.59 (so-called "Banks Decree" - converted into Law 30 June 2016 No.119), introduced the possibility, starting from 2016 since 2030, to opt for the payment of an annual fee to the extent of 1.5% of an aggregate amount deriving from the difference between:

- the increase in convertible DTAs recognised at the end of the fiscal year and the convertible DTA existing as of 31 December 2007, for IRES tax, and as of 31 December 2012 for IRAP tax, taking into account the amounts already converted into tax credits;
- taxes:
  - IRES paid by tax group starting from 1 January 2008;
  - IRAP paid registered starting from 1 January 2013 by Legal Entities included in Tax Group with convertible DTAs;
  - substitute taxes that generated convertible DTAs.

The fee has been settled on the 28 June 2017 for an amount €111.8 million. Considering the provisions of 2016, made accordingly the legislation in force at the date and equal to €121.6 million, a positive impact of approximately €10 million has been recorded in the income statement among Administrative costs: b) Other administrative expenses.

For further details refer to Notes to the Accounts - Part C - Section 9.



## Transactions with related parties

The table below shows the assets, liabilities, guarantees and commitments outstanding as at 31 December 2017, in respect of direct and indirect subsidiaries, companies subject to joint control, companies subject to significant influence and other related parties.

(€ million)

	ASSETS	LIABILITIES	GUARANTEES AND COMMITMENTS
Subsidiaries	45,415	38,597	12,270
Joint Ventures	3,574	66	1,102
Associates	1,643	684	128
Key Management Personnel	2	4	-
Other related parties	267	257	78
<b>Total</b>	<b>50,901</b>	<b>39,608</b>	<b>13,578</b>

With reference to paragraph 8 of Art.5 - "Public information on transactions with related parties" of Consob Regulation containing provisions relating to transactions with related parties (adopted by Consob with Resolution No.17221 of 12 March 2010, as subsequently amended by Resolution No.17389 of 23 June 2010), it should be noted that:

- according to the "Global policy for the management of transactions with persons in conflict of interest" adopted by the Board of Directors of UniCredit S.p.A. on 13 March 2017, and published on the website [www.unicreditgroup.eu](http://www.unicreditgroup.eu), during 2017 Bank's Presidio Unico received a report of one transaction of greater importance ended in the period;
- during 2017, no transactions with related parties as defined by article 2427, paragraph 22-bis of the Civil Code were conducted, under different conditions from normal market conditions and materially affecting the Group's financial and economic situation;
- during 2017, there were no changes or developments in the individual transactions with related parties already described in the latest annual report that had a material effect on the Group's financial position or results during the reference period.

For more information on related-party transactions please refer to the Notes to the Accounts - Part H.

## Information on risks

For a complete description of the risks and uncertainties that the Bank must face under the current market conditions, refer to the appropriate section in the Notes to the Accounts.

## Information on the time limits for convening the ordinary Shareholders' Meeting

Pursuant to Art.2364, paragraph 2, of the Civil Code and Art.8, paragraph 1, of UniCredit's articles of Association, the draft Accounts will be submitted to the Ordinary Shareholders' Meeting for approval within 180 days from the end of the financial year, since the Company is required to prepare the consolidated financial statements.

# Subsequent events and Outlook

## Subsequent Events<sup>6</sup>

On 22 January 2018 the Board of Directors of UniCredit informed that, following the expiry of the period for exercising the withdrawal right reserved to shareholders and relating to the elimination of the 5% limit for the exercise of the voting right, since the number of shares subject to withdrawal exceeded the limit, resolved to waive the stop-loss condition to which the effectiveness of the resolution was subject and therefore the resolution has become effective.

The No.6,304,964 withdrawing ordinary shares are offered on an option right basis to the shareholders, on the basis of a ratio of No.1 withdrawing ordinary share for each No.352 owned shares, during the option offer period from 23 January 2018 and until 21 February 2018.

Furthermore, with reference to mandatory conversion of savings shares in ordinary shares, in the same option offer period were offered on an option right basis to the savings shareholders with a ratio of No.1 withdrawing savings share for each No.14,851 owned savings shares.

For further detail see paragraph "Capital Strengthening" of this Report on operations.

UniCredit completed the final phase of Project Fino. Following the press release issued on 12 December 2017, announcing the binding agreements entered with funds and affiliates of Fortress Investment Group as well as with funds managed by King Street Capital management, L.P., UniCredit announced that the disposal of a portion of its retained exposure in Class B, C and D Notes issued by the vehicles Fino 1 Securitisation S.r.l. and Fino 2 Securitisation S.r.l. (the "Fino B-C-D Notes") has been settled.

In addition, further to previously disclosed information, UniCredit also announced the completion of the placement of the Senior Guaranteed Notes (the "Fino Senior Guaranteed Notes") issued by FINO 1 Securitisation S.r.l. vehicle (the "SPV") which benefit from the Garanzia sulle Cartolarizzazioni delle Sofferenze (GaCS) and has the highest rating assigned in Italy in the context of GaCS securitisation (A2 by Moody's and BBB (high) by DBRS).

The total amount issued by the SPV of Fino Senior Guaranteed Notes placed is €617.5 million at a price of 100.00 and coupon of 3 months Euribor +150bps, that represents the full senior tranche net of 5 per cent retention. The transaction was oversubscribed with settlement finalised on 25 January 2018.

A syndicate of banks composed of UniCredit together with HSBC, Natixis, Natwest, and Mediobanca supported in the placement process on the GaCS transaction. On FINO, Financial Arrangers to UniCredit were UniCredit Bank AG and Morgan Stanley. Mediobanca was Financial Arranger to Fortress.

The placement of the Fino Senior Guarantee Notes will be instrumental in the establishment of a liquid ABS market backed by Italian NPL exposures, as it is the first such tranche offered to investors.

With the settlement of the Fino B-C-D Notes and the placement of the Fino Senior Guaranteed Notes, UniCredit has successfully completed the second and final phase of Project Fino, resulting in the Bank's overall position in the Fino portfolio being below 20 per cent.

Thanks to these successful milestones, and as already communicated on 12 December 2017, UniCredit has notified the European Central Bank (the "ECB") of the intention to recognise the "Significant Risk Transfer" ("SRT") as of 31 March 2018. The necessary documentation is being finalised in accordance to regulation and procedures.

For additional information refer to the explanatory notes presented in Part E, at the bottom of Table "A.1.2 Breakdown of credit exposures by portfolio and credit quality (gross and net amounts)".

On 1 February 2018 UniCredit signed a "Youth Plan" with Italian trade unions to employ roughly 550 young people with permanent contracts or apprenticeships. The "Youth Plan" foresees 1:1 re-hiring for any exit. These positions will be part of a generational turnover to meet operational and development needs, primarily in the Bank's commercial network.

<sup>6</sup> Up to the date of approval by the Board of Directors' Meeting of 7 February 2018.

## Outlook

In the second half of 2017, the global recovery has picked up further momentum, expanding at an annualised pace of about 3.5%. For the first time since the beginning of the recovery, the upturn is highly synchronised across the advanced and emerging world. Synchronised economic expansions tend to reinforce each other via positive spill-over effects and to be more durable and more robust against ad-hoc shocks or economic policy mistakes. The greatest degree of synchronisation in global growth is evident in business and consumer confidence, reaching multi-year highs in many countries. A continuation of the strong global growth is expected in 2018, global real GDP should grow by 3.9% in 2018, up from the 3.6% likely in 2017, with the US enjoying a short-term boost from tax cuts, the Eurozone retaining solid momentum and emerging economies in general benefitting from positive environment. Major central banks are likely to withdraw stimulus, but very gradually.

In the Eurozone, the economic recovery continues and is now broadening among sectors and countries. The latest economic indicators remain at high levels, confirming the expectation of robust growth in the second half of 2017, with an annualised real GDP growth that was likely above 2%. The broad-based recovery is likely to continue in 2018 with some slowdown in 2019 only. Consumption and investment are set to increasingly feed into each other generating further positive effects in 2018, while solid global growth provides a good buffer against a stronger Euro. In 2018, a broadly stable growth in the three largest Euro area countries is expected. In particular, after a slow start, growth has finally peaked also in Italy, showing annualised growth of 1.6% on average, fuelled by both external and domestic demand. Export has been accelerating, more than benefitting from the global demand growth, creating a very promising environment for businesses, with the latest manufacturing confidence indicators hitting at 2017 year end their highest level since 2011. No substantial change in global trade growth or to the ECB's monetary policy sets the premises for the maintenance in 2018 of the positive growth pace recorded this year. Regarding domestic demand, while we expect a moderate slowdown in private consumption, mainly due to a deceleration in real disposable income, the prospects appear to be more upbeat for fixed investment, where growth might accelerate in 2018. A continuation of the credit recovery is expected, despite a dichotomy between a sustained growth in loans to households, in line with that of the Eurozone average, and a very weak growth of loans to non-financial corporations. Accelerating economic activity might increasingly spill over to non-financial corporations lending growth, with positive feedbacks for the overall growth in Italy.

Inflationary pressure remains moderate in Eurozone, at around 1.5% on yearly basis. Core inflation seems to be on track for a slight increase to 1.0%. Energy prices are putting upward pressure on headline inflation, while food prices are pulling in the opposite direction. At its October meeting, the ECB recalibrated its Asset Purchase Program (APP), which was reduced to €30 billion from €60 billion per month, starting in January 2018 until September 2018 or further, if necessary. The Governing Council reiterated its readiness to increase the APP in terms of the size of purchases and/or the duration of the programme, if the outlook becomes less favourable, or if financial conditions become inconsistent with further progress towards a sustained adjustment in the path of inflation. The Governing Council also confirmed that the Euro-system would reinvest the principal payments from maturing securities purchased under the APP for an extended period of time after the end of its net asset purchases.

In 2018, the Group results should be sustained by a favourable macroeconomic environment, in line with the general recovery signs recorded in 2017.

The level of interest rates is expected to remain low throughout 2018 with implications on the dynamic of the net interest income.

After having successfully completed the Capital increase and the sale of subsidiaries (Pekao and Pioneer) to fulfil the first Pillar of Transform 2019 ("Strengthen and optimise Capital"), the Group confirms its commitment in pursuing the actions envisaged in the Strategic Plan, with particular attention to cost reduction and to de-risking and risk-monitoring.

In addition, Group results will continue to benefit from wide cross-selling synergies as well as geographical and product diversification, which should be further underpinned by the broad-based pick-up in the European macroeconomic environment.

Milan - 7 February 2018

CHAIRMAN  
GIUSEPPE VITA

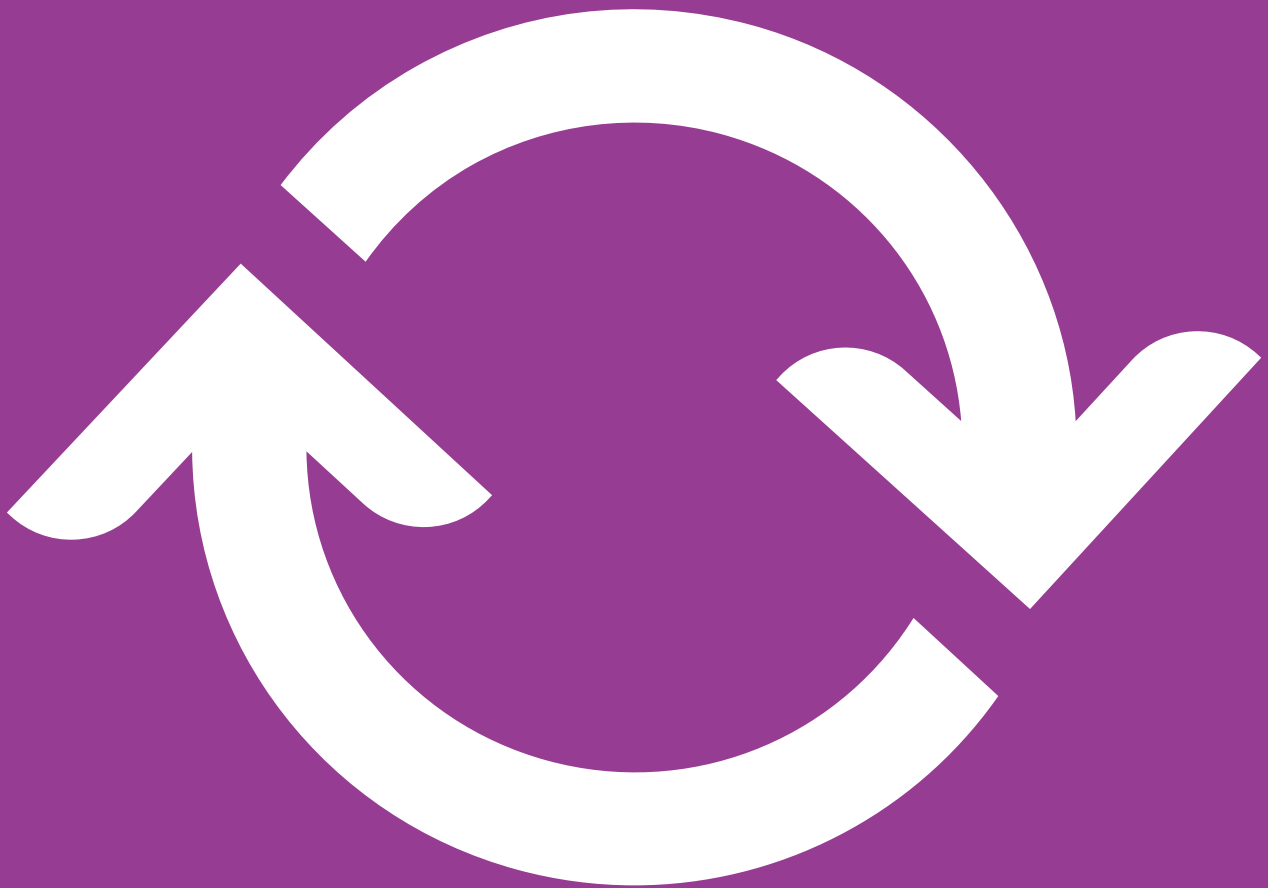


THE BOARD OF DIRECTORS

CEO  
JEAN PIERRE MUSTIER



# Transform operating model.



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

# Proposal to Shareholders' Meeting

For the proposals to Shareholders' Meeting refer to the specific Board of Directors' reports in relation to the allocation of the 2017 result.

# Maximise commercial bank value.



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

# Company Financial Statements

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In addition to what has already been specified in the Notes at the bottom of the Contents, please note that:

- "X" indicates an item not to be populated (under Banca d'Italia instructions);
- unless otherwise indicated, all amounts are in **thousands of euros**.





# Company Accounts

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## Balance Sheet

## Balance Sheet

(€)

BALANCE SHEET - ASSETS	AMOUNTS AS AT	
	12.31.2017	12.31.2016
10. Cash and cash balances	25,816,708,377	1,851,831,592
20. Financial assets held for trading	13,863,778,570	14,026,392,902
30. Financial assets at fair value through profit or loss	651,920,173	159,281,093
40. Available-for-sale financial assets	59,718,169,298	64,524,983,542
50. Held-to-maturity investments	762,430,874	755,170,856
60. Loans and receivables with banks	27,566,760,856	22,349,104,335
70. Loans and receivables with customers	208,965,454,636	213,236,760,033
80. Hedging derivatives	4,399,939,250	6,095,890,529
90. Changes in fair value of portfolio hedged items (+/-)	1,714,488,195	2,063,730,158
100. Equity investments	44,145,484,970	42,935,070,306
110. Property, plant and equipment	2,209,454,955	2,340,731,470
120. Intangible assets	4,349,513	4,767,982
<i>of which: - goodwill</i>	-	-
130. Tax assets	10,310,576,804	12,004,612,417
<i>a) current tax assets</i>	1,660,306,433	690,461,588
<i>b) deferred tax assets</i>	8,650,270,371	11,314,150,829
<i>of which for purposes of L. 214/2011</i>	8,156,932,326	11,017,399,321
140. Non-current assets and disposal groups classified as held for sale	150,030,667	7,438,960,722
150. Other assets	4,700,353,858	4,400,260,612
<b>Total assets</b>	<b>404,979,900,996</b>	<b>394,187,548,549</b>

(€)

BALANCE SHEET - LIABILITIES AND SHAREHOLDERS' EQUITY	AMOUNTS AS AT	
	12.31.2017	12.31.2016
10. Deposits from banks	56,807,016,417	44,380,507,337
20. Deposits from customers	197,138,761,654	196,520,934,143
30. Debt securities in issue	64,945,632,171	83,126,804,986
40. Financial liabilities held for trading	13,067,880,871	14,557,036,155
50. Financial liabilities at fair value through profit or loss	2,737,624,598	2,102,895,434
60. Hedging derivatives	4,558,319,891	6,126,875,303
70. Changes in fair value of portfolio hedged items (+/-)	1,720,371,037	2,793,198,258
80. Tax liabilities	1,151,624	161,734,393
<i>a) current tax liabilities</i>	1,151,624	161,734,393
<i>b) deferred tax liabilities</i>	-	-
90. Liabilities included in disposal groups classified as held for sale	-	2,543,623
100. Other liabilities	7,823,823,206	7,290,729,752
110. Provision for employee severance pay	828,450,167	1,019,712,831
120. Provisions for risks and charges	1,843,004,707	3,407,328,188
<i>a) post retirement benefit obligations</i>	77,312,166	373,189,449
<i>b) other provisions</i>	1,765,692,541	3,034,138,739
130. Revaluation reserves	585,547,375	716,180,292
140. Share capital repayable on demand	-	-
150. Equity instruments	4,610,073,464	2,383,463,450
160. Reserves	7,798,689,926	5,828,365,938
170. Share premium	13,399,798,681	14,384,917,645
180. Share capital	20,880,549,802	20,846,893,437
190. Treasury shares (-)	(2,440,001)	(2,440,001)
200. Net profit (loss) for the year (+/-)	6,235,645,406	(11,460,132,615)
<b>Total liabilities and Shareholders' Equity</b>	<b>404,979,900,996</b>	<b>394,187,548,549</b>

As at 31 December 2016 the credit exposures belonging to the so-called "FINO Portfolio" were recognised in item "140. Non-current assets and disposal groups classified as held for sale". As at 31 December 2017 these credit exposures were no longer included in the balance sheet assets, following the disposal occurred in July 2017.

For a more detailed disclosure on "FINO Project", see the information provided in Part E- Information on risks and hedging policies - Section 1 - Credit risk, below the Table "A.1.2 Breakdown of credit exposures by portfolio and credit quality (gross and net amounts)".

## Income Statement

## Income Statement

(€)

ITEMS	YEAR	
	2017	2016
10. Interest income and similar revenues	5,626,643,041	6,227,564,569
20. Interest expenses and similar charges	(1,915,704,127)	(2,534,028,520)
<b>30. Net interest margin</b>	<b>3,710,938,914</b>	<b>3,693,536,049</b>
40. Fees and commissions income	4,312,823,798	4,082,085,681
50. Fees and commissions expenses	(391,567,552)	(386,232,325)
<b>60. Net fees and commissions</b>	<b>3,921,256,246</b>	<b>3,695,853,356</b>
70. Dividend income and similar revenues	3,808,045,507	1,172,564,470
80. Gains (Losses) on financial assets and liabilities held for trading	85,220,626	140,661,348
90. Fair value adjustments in hedge accounting	(12,707,305)	(2,746,530)
100. Gains (Losses) on disposal and repurchase of:	(219,217,125)	308,540,278
<i>a) loans</i>	(569,446,667)	4,155,093
<i>b) available-for-sale financial assets</i>	313,647,375	294,892,812
<i>c) held-to-maturity investments</i>	-	-
<i>d) financial liabilities</i>	36,582,167	9,492,373
110. Gains (Losses) on financial assets/liabilities at fair value through profit or loss	(101,000,034)	(82,520,090)
<b>120. Operating income</b>	<b>11,192,536,829</b>	<b>8,925,888,881</b>
130. Net losses/recoveries on impairment:	(1,582,779,892)	(10,933,079,438)
<i>a) loans</i>	(1,337,535,270)	(9,996,114,908)
<i>b) available-for-sale financial assets</i>	(313,534,043)	(684,693,146)
<i>c) held-to-maturity investments</i>	-	-
<i>d) other financial assets</i>	68,289,421	(252,271,384)
<b>140. Net profit from financial activities</b>	<b>9,609,756,937</b>	<b>(2,007,190,557)</b>
150. Administrative costs:	(6,116,091,163)	(8,063,505,949)
<i>a) staff expenses</i>	(3,121,490,571)	(4,460,811,206)
<i>b) other administrative expenses</i>	(2,994,600,592)	(3,602,694,743)
160. Net provisions for risk and charges	(388,397,245)	(886,126,028)
170. Impairment/write-backs on property, plant and equipment	(164,527,912)	(182,903,066)
180. Impairment/write-backs on intangible assets	(4,433,882)	(2,128,099)
190. Other net operating income	432,313,066	588,485,886
<b>200. Operating costs</b>	<b>(6,241,137,136)</b>	<b>(8,546,177,256)</b>
210. Profit (Loss) of investments	2,742,978,849	(729,975,284)
220. Gains (Losses) on tangible and intangible assets measured at fair value	-	-
230. Impairment of goodwill	-	-
240. Gains (Losses) on disposal of investments	9,779,700	21,637,588
<b>250. Profit (Loss) before tax from continuing operations</b>	<b>6,121,378,350</b>	<b>(11,261,705,509)</b>
260. Tax expense (income) related to profit or loss from continuing operations	30,164,357	(198,427,106)
<b>270. Profit (Loss) after tax from continuing operations</b>	<b>6,151,542,707</b>	<b>(11,460,132,615)</b>
280. Profit (Loss) after tax from discontinued operations	84,102,699	-
<b>290. Net profit (loss) for the year</b>	<b>6,235,645,406</b>	<b>(11,460,132,615)</b>

# Statement of Comprehensive Income

## Statement of Comprehensive Income

(€)

ITEMS	YEAR	
	2017	2016
<b>10. Net profit (loss) for the year</b>	<b>6,235,645,406</b>	<b>(11,460,132,615)</b>
<b>Other comprehensive income after tax not reclassified to profit or loss</b>		
20. Property, plant and equipment	-	-
30. Intangible assets	-	-
40. Defined benefit plans	15,218,639	10,648,855
50. Non-current assets classified as held for sale	-	-
60. Portion of revaluation reserves from investments valued at equity	-	-
<b>Other comprehensive income after tax that may be reclassified to profit or loss</b>		
70. Hedges of foreign investments	-	-
80. Exchange differences	-	-
90. Cash flow hedges	(38,978,962)	(118,696,132)
100. Available-for-sale financial assets	(106,872,594)	(272,055,017)
110. Non-current assets classified as held for sale	-	-
120. Valuation reserves from investments accounted for using the equity method	-	-
<b>130. Total other comprehensive income after tax</b>	<b>(130,632,917)</b>	<b>(380,102,294)</b>
<b>140. Comprehensive income after tax (Item 10+130)</b>	<b>6,105,012,489</b>	<b>(11,840,234,909)</b>

# Statement of changes in Shareholders' Equity

Statement of changes in Shareholders' Equity as at 31 December 2017

(€)

	BALANCE AS AT 12.31.2016	CHANGE IN OPENING BALANCE	BALANCE AS AT 01.01.2017	ALLOCATION OF PROFIT FROM PREVIOUS YEAR		CHANGES DURING THE YEAR							COMPREHENSIVE INCOME 2017	SHAREHOLDERS' EQUITY AS AT 12.31.2017
				RESERVES	DIVIDENDS AND OTHER ALLOCATIONS	CHANGES IN RESERVES	SHAREHOLDERS' EQUITY TRANSACTIONS							
							ISSUE OF NEW SHARES	ACQUISITION OF TREASURY SHARES	DISTRIBUTION OF EXTRAORDINARY DIVIDENDS	CHANGE IN EQUITY INSTRUMENTS	OWN SHARE DERIVATIVES	STOCK OPTIONS		
Issued capital:	20.846.893,437	-	20.846.893,437	-	-	-	33.656,365	-	-	-	-	-	-	20.880.549,802
a) ordinary shares	20.838.376,719	-	20.838.376,719	-	-	-	39.805,497	-	-	-	-	-	-	20.878.182,216
b) other shares	8.516,718	-	8.516,718	-	-	-	(6.149,132)	-	-	-	-	-	-	2.367,586
Share premiums	14.384.917,645	-	14.384.917,645	(11.460,132,615)	-	(2.508,551,030)	12.983,564,681	-	-	-	-	-	-	13.399,798,681
Reserves:	5.828,365,938	-	5.828,365,938	-	-	1.909,572,197	(17,587,597)	-	-	-	-	78,339,388	-	7.798,689,926
a) from profits	3.152,798,847	-	3.152,798,847	-	-	(368,965,123)	(17,587,597)	-	-	-	-	-	-	2.766,246,127
b) other	2.675,567,091	-	2.675,567,091	-	-	2.278,537,320	-	-	-	-	-	78,339,388	-	5.032,443,799
Revaluation reserves	716,180,292	-	716,180,292	-	-	-	-	-	-	-	-	-	(130,632,916)	585,547,376
Equity instruments	2,383,463,450	-	2,383,463,450	-	-	-	-	-	2,226,610,014	-	-	-	-	4,610,073,464
Treasury shares	(2,440,001)	-	(2,440,001)	-	-	-	-	-	-	-	-	-	-	(2,440,001)
Net profit (loss) for the year	(11,460,132,615)	-	(11,460,132,615)	11,460,132,615	-	-	-	-	-	-	-	-	6,235,645,406	6,235,645,406
Shareholders' Equity	32,697,248,146	-	32,697,248,146	-	-	(598,978,833)	12,999,633,449	-	-	2,226,610,014	-	78,339,388	6,105,012,490	53,507,864,654

The amounts disclosed in column "Stock Options" represent the effects of the delivery of shares connected with the ESOP Plans and other Group Executive Incentive Plans.

Changes in Shareholders' Equity in the period are illustrated in the specific paragraph of the Report on Operations.

Statement of changes in Shareholders' Equity as at 31 December 2016

(€)

	BALANCE AS AT 12.31.2015	CHANGE IN OPENING BALANCE	BALANCE AS AT 01.01.2016	ALLOCATION OF PROFIT FROM PREVIOUS YEAR		CHANGES DURING THE YEAR								SHAREHOLDERS' EQUITY AS AT 12.31.2016	
				RESERVES	DIVIDENDS AND OTHER ALLOCATIONS	CHANGES IN RESERVES	SHAREHOLDERS' EQUITY TRANSACTIONS					COMPREHENSIVE INCOME 2016			
							ISSUE OF NEW SHARES	ACQUISITION OF TREASURY SHARES	DISTRIBUTION OF EXTRAORDINARY DIVIDENDS	CHANGE IN EQUITY INSTRUMENTS	OWN SHARE DERIVATIVES		STOCK OPTIONS		
Issued capital:	20.257.667,512	-	20.257.667,512	-	-	-	589.225,925	-	-	-	-	-	-	-	20.846.893,437
a) ordinary shares	20.249.249,488	-	20.249.249,488	-	-	-	589.127,231	-	-	-	-	-	-	-	20.838.376,719
b) other shares	8.418,024	-	8.418,024	-	-	-	98,694	-	-	-	-	-	-	-	8.516,718
Share premiums	15.976.604,463	-	15.976.604,463	(1.441.448,594)	-	(150.238,224)	-	-	-	-	-	-	-	-	14.384.917,645
Reserves:	8.753.683,190	-	8.753.683,190	-	-	(2.232.529,239)	(589.225,925)	-	(157.630,181)	-	-	54.068,093	-	-	5.828.365,938
a) from profits	3.676.689,816	-	3.676.689,816	-	-	222.965,137	(589.225,925)	-	(157.630,181)	-	-	-	-	-	3.152.798,847
b) other	5.076.993,374	-	5.076.993,374	-	-	(2.455.494,376)	-	-	-	-	-	54.068,093	-	-	2.675.567,091
Revaluation reserves	1.092.027,055	-	1.092.027,055	-	-	4.255,531	-	-	-	-	-	-	(380.102,294)	-	716.180,292
Equity instruments	1.888.463,450	-	1.888.463,450	-	-	-	-	-	-	495.000,000	-	-	-	-	2.383.463,450
Treasury shares	(2.440,001)	-	(2.440,001)	-	-	-	-	-	-	-	-	-	-	-	(2.440,001)
Net profit (loss) for the year	(1.441.448,594)	-	(1.441.448,594)	1.441.448,594	-	-	-	-	-	-	-	-	-	(11.460.132,615)	(11.460.132,615)
Shareholders' Equity	46.524.557,075	-	46.524.557,075	-	-	(2.378.511,932)	-	-	(157.630,181)	495.000,000	-	54.068,093	(11.840.234,909)	32.897.248,146	

## Cash Flow Statement

## Cash Flow Statement (indirect method)

(€)

	YEAR	
	2017	2016
<b>A. OPERATING ACTIVITIES</b>		
<b>1. Operations</b>	<b>(925,520,821)</b>	<b>2,382,344,585</b>
- profit and loss of the year (+/-)	6,235,645,406	(11,460,132,615)
- profit (loss) of merged companies (+/-)	(81,538,991)	206,672,869
- capital gains/losses on financial assets/liabilities held for trading and on assets/liabilities designated at fair value through profit and loss (+/-)	111,409,757	76,117,053
- capital gains (losses) on hedging operations (+/-)	12,707,305	2,746,530
- net losses/recoveries on impairment (+/-)	1,582,779,892	11,445,265,837
- net write-offs/write-backs on tangible and intangible assets (+/-)	168,961,794	185,031,165
- provisions and other incomes/expenses (+/-)	(1,439,154,475)	292,245,105
- unpaid taxes and tax credits (+/-)	(2,896,889,494)	(62,705,814)
- other adjustments (+)	(4,619,442,015)	1,697,104,455
<b>2. Liquidity generated/absorbed by financial assets</b>	<b>10,622,105,252</b>	<b>(1,689,945,030)</b>
- financial assets held for trading	1,723,412,558	861,536,185
- financial assets at fair value	16,659,006	113,267,195
- available-for-sale financial assets	3,678,177,287	(206,195,242)
- loans and receivables with banks	(5,211,908,792)	1,653,362,853
- loans and receivables with customers	5,082,532,761	(5,248,441,323)
- other assets	5,333,232,432	1,136,525,302
<b>3. Liquidity generated/absorbed by financial liabilities</b>	<b>(6,462,734,117)</b>	<b>(2,681,369,415)</b>
- deposits from banks	16,286,194,508	(1,827,150,322)
- deposits from customers	617,827,511	15,007,266,162
- debt certificates including bonds	(18,181,172,815)	(18,451,613,299)
- financial liabilities held for trading	(3,075,432,726)	2,743,920,562
- financial liabilities designated at fair value	527,007,432	2,053,750,358
- other liabilities	(2,637,158,027)	(2,207,542,876)
<b>Net liquidity generated/absorbed by operating activities</b>	<b>3,233,850,314</b>	<b>(1,988,969,860)</b>
<b>B. INVESTMENT ACTIVITIES</b>		
<b>1. Liquidity generated by:</b>	<b>7,052,946,913</b>	<b>3,214,870,388</b>
- sales of equity investments	3,213,120,624	1,858,033,321
- collected dividends on equity investments	3,808,045,507	1,098,207,791
- sales of financial assets held to maturity	-	4,834,483
- sales of tangible assets	31,780,782	253,794,793
- sales of intangible assets	-	-
- sales of divisions	-	-
<b>2. Liquidity absorbed by:</b>	<b>(735,923,592)</b>	<b>(1,853,106,773)</b>
- purchases of equity investments	(613,220,786)	(1,704,036,583)
- purchases of financial assets held to maturity	(7,260,019)	(8,197,386)
- purchases of tangible assets	(114,428,858)	(139,936,499)
- purchases of intangible assets	(1,013,929)	(936,305)
- purchases of sales/purchases of divisions	-	-
<b>Net liquidity generated/absorbed by investment activities</b>	<b>6,317,023,321</b>	<b>1,361,763,615</b>
<b>C. FUNDING ACTIVITIES</b>		
- issue/purchase of treasury shares	12,570,507,695	-
- issue/purchase of equity instruments	2,226,610,014	495,000,000
- distribution of dividends and other scopes	(281,310,268)	(452,857,781)
<b>Net liquidity generated/absorbed by funding activities</b>	<b>14,515,807,441</b>	<b>42,142,219</b>
<b>NET LIQUIDITY GENERATED/ABSORBED DURING THE YEAR</b>	<b>24,066,681,076</b>	<b>(585,064,026)</b>

LEGEND:  
 (+) generated;  
 (-) absorbed.



**Reconciliation**

(€)

ITEMS	YEAR	
	2017	2016
Cash and cash equivalents at the beginning of the period	1,851,831,592	2,460,123,105
Net liquidity generated/absorbed during the year	24,066,681,076	(585,064,026)
Cash and cash equivalents: effect of exchange rate variations	(101,804,291)	(23,227,487)
Cash and cash equivalents at the end of the year	25,816,708,377	1,851,831,592



# Notes to the Accounts

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# Part A - Accounting Policies

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## Part A - Accounting Policies

### A.1 - General

#### Section 1 - Statement of compliance with IFRS

These Accounts have been prepared in accordance with the IFRS issued by the International Accounting Standards Board (IASB), including the interpretation documents issued by the SIC and the IFRIC, and endorsed by the European Commission up to 31 December 2017, pursuant to EU Regulation 1606/2002 which was incorporated into Italian legislation through the Legislative Decree No.38 of 28 February 2005 (see Section 4 - Other matters).

The Accounts are an integral part of the Annual Financial Statements as required by Art.154-ter, paragraph 1, of the Single Finance Act (TUF Legislative Decree No.58 of 24 February 1998).

In its circular 262 of 22 December 2005 and subsequent amendments *Banca d'Italia* laid down the formats for the financial statements and explanatory notes used to prepare these Accounts.

On 15 December 2015, the fourth update of this circular was issued, adapting the notes on "credit quality" to the definitions of impaired loans as "non-performing exposures" and "forborne exposures" laid down by the European Commission in Regulation 2015/227, as recommended by EBA. In addition, with this update some of the previously applicable templates of the tables have been rationalised.

In particular, the main rationalisation changes to the disclosure templates concerned the following areas:

- in Part B disclosure on the balance sheet:
  - tables concerning annual changes to the financial instruments presented in the assets and liabilities of the balance sheet (for example, table "2.3 On-balance-sheet financial assets held for trading: annual changes");
- in Part E - Information on risks and related risk management policies:
  - Tables relating to the securitisation transactions provided for in Section 1 - Credit risks - C. securitisation transactions (for example, tables "C.1 Exposures deriving from securitisation transactions broken down by quality of underlying assets", "C.4 Exposures deriving from securitisation transactions broken down by portfolio and type", and "C.5 Total amount of securitised assets underlying junior securities or other forms of credit support");
  - in Section 1 "Credit risks - credit quality" of the consolidated financial statements, tables "A.1.1. Breakdown of financial assets by portfolio and credit quality (carrying value)" and "A.1.2 Breakdown of credit exposures by portfolio and credit quality (gross and net values)", no distinction is made between "banking group" and "other companies".

#### Section 2 - General Preparation Criteria

As mentioned above, these Accounts have been prepared in accordance with the IFRS endorsed by the European Commission.

The following documents have been used to interpret and support the application of IFRS, even though not all of them have been endorsed by the European Commission:

- The Conceptual Framework for Financial Reporting;
- Implementation Guidance, Basis for Conclusions, IFRICs and any other documents prepared by the IASB or International Financial Reporting Interpretations Committee (IFRIC) supplementing the IFRSs;
- Interpretative documents on the application of IAS/IFRS in Italy prepared by the *Organismo Italiano di Contabilità* (OIC) and *Associazione Bancaria Italiana* (ABI);
- ESMA (European Securities and Markets Authority) and CONSOB documents on the application of specific IFRS provisions.

The Accounts include the Balance Sheet, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Shareholders' Equity, the Cash Flow Statement (compiled using the indirect method) and the Notes to the Accounts, together with the Directors' Report on Operations and Annexes.

In addition, pursuant to Art.123-bis paragraph 3 of TUF, as reported in the chapter "Other information" of the Report on Operations, the Report on Corporate Governance and Ownership Structures is available in the "Governance" section of the UniCredit website: <https://www.unicreditgroup.eu/it/governance/system-policies/corporate-governance-report.html> - Italian version, and <https://www.unicreditgroup.eu/en/governance/system-policies/corporate-governance-report.html> - English version).

Figures in the financial statements and Notes to the Accounts are given in **thousands of euros**, unless otherwise specified.

In their joint Document No.4 of 3 March 2010, Banca d'Italia, Consob and Isvap made a few observations on the current situation of the markets and businesses and requested to disclose in the financial information which are essential for a better understanding of business trends and outlook.

In this regard, the Directors, based on the 2016-2019 Strategic Plan as well as on the results of the capital increase fully subscribed with effect from 2 March 2017, identified no symptoms in the capital and financial structure and in the economic performance that could indicate uncertainty about the ability to continue as a going-concern and therefore believe with reasonable certainty that the Bank will continue to operate profitably in the foreseeable future; as a result, in accordance with the provisions of IAS1, the UniCredit S.p.A.'s Financial Statements as at 31 December 2017 has been prepared on a going-concern basis.

The measurement criteria adopted are therefore consistent with the assumption that the business is a going-concern and with the principles of accrual based accounting, the relevance and materiality of accounting information, and the prevalence of economic substance over legal form. These criteria have not changed compared with the previous year.

### **Risk and uncertainty relating to the use of estimates**

Pursuant to IFRSs, Management must make judgments, estimates and assumptions that affect the application of accounting principles and the amounts of assets, liabilities, income and expenses reported in the accounts, as well as the disclosure concerning potential assets and liabilities. Estimates and the related assumptions are based on previous experience and other factors considered reasonable under the circumstances and have been used to estimate the carrying values of assets and liabilities not readily available from other sources.

In particular estimated figures have been used for the recognition of some of the largest value-based items in the Accounts at 31 December 2017, as required by the accounting policies and regulations described above.

These estimates are largely based on calculations of future recoverability of the values recognised in the accounts according to the rules laid down in current legislation and have been made on the assumption of a going-concern, i.e. without contemplating the possibility of the forced sale of the estimated items.

The processes adopted confirm the carrying values at 31 December 2017. Valuation is particularly difficult because of the uncertainty in the macroeconomic and market environment.

The parameters and information used to check the above-mentioned values were therefore significantly affected by such factors, which could change rapidly in ways that are currently unforeseeable, such that further effects on future carrying values cannot be ruled out.

Estimates and assumptions are regularly reviewed. Any changes resulting from these reviews are recognised in the period in which the review was carried out, provided the change only concerns that period. If the revision concerns both current and future periods it is recognised accordingly in both current and future periods.

Uncertainty affecting estimates is generally inherent in the measurement of:

- fair value of financial instruments not listed in active markets;
- loans and receivables, equity investments and, in general, any other financial assets/liabilities;
- severance pay (Italy) and other employee benefits;
- provisions for risks and charges and contingent assets (for more information on legal risks see Part E - "Section 4 - Operational risk") ;
- goodwill and other intangible assets;
- assets and liabilities relating to insurance contracts;
- deferred tax assets;
- property held for investment;

whose assessment may significantly change over time according to the trend in (i) domestic and international socio-economic conditions and subsequent impact on the Bank's profitability and customers' creditworthiness, (ii) financial markets which affect changes in interest rates, prices and actuarial assumptions and (iii) real estate market affecting the value of property owned by the Bank or received as collateral.

With specific reference to future cash flow projections used in the valuation of equity investments, intangible assets and deferred tax assets, it should be noted that the parameters and information used are significantly influenced by the macro-economic market situation, which may change in unpredictably.

With specific reference to valuation techniques, unobservable inputs used in the fair value measurement and sensitivities to changes in those inputs, please refer to Section A.4 - Information on fair value.

## Part A - Accounting Policies

### Section 3 - Subsequent events

No material events have occurred after the balance sheet date that would make it necessary to change any of the information given in the Accounts as of 31 December 2017.

For a description of the significant events after year end see the specific paragraph of the Report on Operations.

### Section 4 - Other matters

In 2017 the following standards, amendments or interpretations came into force:

- Amendments to IAS7: Disclosure Initiative (EU Regulation 2017/1990);
- Amendments to IAS12: Recognition of Deferred Tax Assets for Unrealised Losses (EU Regulation 2017/1989).

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

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

- Amendments to IFRS4: Applying IFRS9 Financial Instruments with IFRS4 Insurance Contracts (EU Regulation 2017/1988);
- Clarifications to IFRS15 Revenue from Contracts with Customers (EU Regulation 2017/1987);
- IFRS16 - Leases (EU Regulation 2017/1986);
- IFRS9 - Financial Instruments (EU Regulation 2016/2067);
- IFRS15 - Revenue from Contracts with Customers (EU Regulation 2016/1905).

As of 31 December 2017 the IASB issued the following standards, amendments, interpretations or revisions, their application is subject to completion of the endorsement process by the competent bodies of the European Commission<sup>7</sup>, which is still ongoing:

- IFRS17: Insurance Contracts (May 2017);
- IFRIC Interpretation 22: Foreign Currency Transactions and Advance Consideration (December 2016);
- IFRIC Interpretation 23: Uncertainty over Income Tax Treatments (June 2017);
- Amendments to IFRS2: Classification and Measurement of Share-based Payment Transactions (June 2016);
- Annual Improvements to IFRS Standards 2014-2016 Cycle (December 2016);
- Amendments to IAS40: Transfers of Investment Property (December 2016);
- Amendments to IFRS9: Prepayment Features with Negative Compensation (October 2017);
- Amendments to IAS28: Long-term Interests in Associates and Joint Ventures (October 2017);
- Annual Improvements to IFRS Standards 2015-2017 Cycle (December 2017).

With particular reference to IFRS9 effective from 1 January 2018, we highlight that the new accounting standard:

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

In order to grant the prompt compliance with the requirements set by the accounting principle, the Group has activated a project, that is in its final phase, with the aim of creating accounting and risk monitoring methodologies harmonised across Group Legal Entities.

<sup>7</sup> EFRAG resolved not to proceed with the endorsement of IFRS14 - Regulatory Deferral Accounts and Amendments to IFRS10 and IAS28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.



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

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

These work-streams are further integrated by a specific work-stream dedicated to adapting the models and methodologies developed to the peculiarities of Corporate & Investment Banking (CIB).

The whole project is being developed with the involvement of all the relevant departments of the Bank and with an active involvement of Board of Directors and Senior Management.

With reference to “Classification and Measurement” work-stream, the Group has:

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

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

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

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

A business model “other” has been assigned to the business areas composing the trading portfolio of the Group so to reflect the trading intent.

For the classification of financial assets in the new IFRS9 categories, the analysis of the business model is complemented by the analysis of the contractual cash flows (“SPPI Test”).

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

This analysis is performed either contract by contract or by clusters, defined on the basis of the features of the asset. With reference to loans, the analysis is performed using a specific tool internally developed (SPPI Tool) in order to analyse the feature of the contracts in comparison with IFRS9 requirements, the analysis of securities is performed mainly using an external data provider (nevertheless, the Group implemented a dedicated tool also for securities).

In this context prepayment features with negative compensation have not affected the outcome of the SPPI test.

The Group will measure equity instruments at fair value through profit or loss or comprehensive income depending on their features and the reasons for which they have been acquired. The Group will measure units in investments funds at fair value through profit or loss following accounting literature that exclude the possibility to consider these instruments as equity instruments.

Finally, the Group has classified some financial liabilities as liabilities designated at fair value; as a result the change in fair value arising from change in own credit risk will be reported in equity.

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

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

Furthermore, specific adjustments have been developed on Probability of Default (PD), Loss Given Default (LGD) and Exposure At Default (EAD) parameters to compound the Expected Credit Loss (ECL), and a new model has been developed to assess the Stage Allocation on unimpaired assets, at transaction level, between Stage 1 and Stage 2.

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

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

- remove the conservatism required for regulatory purposes only;
- introduce a “point in time” adjustment, instead of the “through the cycle” adjustment embedded in the regulatory parameters;
- include forward-looking information;
- extend the credit risk parameters in a multiyear perspective.

## Part A - Accounting Policies

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

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

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

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

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

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

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

- the relative comparison, at transaction level, between the PD at origination and the PD at each reporting date, both calculated through internal models, with thresholds set in such a way to consider all the key variables of each transaction that could affect the bank's expectation about PD changes over time (e.g. age, maturity, level of PD at origination);
- absolute triggers such as backstops required by the regulation (i.e. 30 days past due);
- other internal relevant triggers (e.g. new classifications to Forborne).

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

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

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

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

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

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

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

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

In addition the methodological approaches adopted by UniCredit group in the context of IFRS9 project have been subject to structured review by External Auditors which are currently performing a comprehensive assessment of the implementations.

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

At the date of first time application, the main impacts of IFRS9 on UniCredit group are expected to come from the application of the new model for impairment based on an expected losses approach, which is expected to cause an increase of loan loss provisions made on financial assets (especially loans and receivables with customers), as well as the application of the new transfer logic between the different Stages provided for by the new standard.

In particular, a greater volatility is expected to be generated in the financial results between different reporting periods due to the dynamic changes between different “Stages” of the financial assets recognised in the financial statements (especially between “Stage1”, which will include the new positions originated as well as all performing loans, and “Stage2” which will include positions in financial instruments that have suffered a significant credit risk deterioration since initial recognition).

In December 2017 UniCredit group approved the update of Multi-year Plan (MYP) and communicated the Non Performing Exposures (NPE) disposal 18-19 for Non-Core, to be updated by Q1 2018, as requested by ECB, when UniCredit will communicate the NPL Strategy for 2018 - 2020. According to the NPL Strategy, UCG will undergo IFRS9 impact in some of its legal entities, to be included in overall impairment impact.

Regarding UniCredit S.p.A., the effects arising from IFRS9 adoption in term of impairment can be preliminarily estimated in the range of -102bps on fully loaded CET1 ratio gross of tax effect which is equivalent to about -€2.1 billion.

This effect is mostly driven by the introduction of the mentioned disposal scenarios in the level of impairment measurement of Stage 3 credit exposures as well as the lifetime ECL on credit exposures allocated in Stage 2.

With reference to “Classification and Measurement”, no significant reclassifications of loans and debt securities at fair value through profit or loss due to the characteristics of the cash flows (SPPI criterion) are expected. In this regard it should be noted that there are no significant effects on fully loaded CET1 deriving from IFRS9 adoption.

Overall adjustments to the carrying value of financial instruments due to IFRS9 transition will be accounted for through Equity as of 1 January 2018. and they will have an impact on fully loaded CET1 ratio, gross of tax effect, that can be preliminarily estimated, as evidenced above, in the range of -102bps which is equivalent to about -€2.1 billion.

Further to the enter into force of IFRS9, a review of the regulatory treatment for the calculation of the capital absorption of expected credit losses (CRD/CRR) is foreseen. In that regard, the EU Regulation n.2017-2395, issued on 27 December 2017, allows, as an option, financial institutions to adopt a transitional regime where the additional Loan Loss Provisions could be included in CET1 with a “phase-in” mechanism over 5 years starting from 2018. UniCredit group will not adopt this transitional regime at consolidated level.

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

IFRS15 provides for:

- two approaches for the revenue recognition (“at point in time” or “over time”);
- a new model for the analysis of the transactions (“Five steps model”) focalised on the transfer of control; and
- the request for a more detailed disclosure to be included in the explanatory notes to the financial statements.

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

Based on the analysis performed at Group level so far no major impacts are foreseen by the adoption of IFRS15.

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

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

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

## Part A - Accounting Policies

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

The Parent Company Accounts and the Consolidated Accounts as at 31 December 2017 are audited by Deloitte & Touche S.p.A. pursuant to Legislative Decree No.39 of 27 January 2010 and to the resolution passed by the Shareholders' Meeting on 11 May 2012.

UniCredit group prepared and published within the time limits set by law and in manner required by *Consob*, the Consolidated First Half Financial Report as at 30 June 2017, subject to limited scope audit, as well as the Consolidated Interim Reports as at 31 March and 30 September 2017, both as Press Releases.

The Parent Company Accounts and the Consolidated Accounts as at 31 December 2017 has been approved by the Board of Directors' meeting of 7 February 2018, which authorised its disclosure to the public, also pursuant to IAS10.

The whole document is filed in the competent offices and entities as required by law.

### A.2 - Main Items of the Accounts

#### 1 - Financial assets held for trading (Hft)

A financial asset is classified as held for trading if it is:

- acquired or incurred principally for the purpose of selling or repurchasing it in the short term;
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- a derivative (except for derivatives which constitute financial guarantees, see Section 17 - Other Information, and derivatives designated as hedging instruments - see Section 6 - Hedge Accounting).

Like other financial instruments, on initial recognition, at settlement date, a held-for-trading financial asset is measured at its fair value, usually equal to the amount paid, excluding transaction costs and income, which are recognised in profit and loss even when directly attributable to the financial assets. Trading book derivatives are recognised at trade date.

After initial recognition these financial assets are measured at their fair value through profit or loss. An exception is represented by derivatives settled by delivery of an unlisted equity instrument whose fair value cannot be reliably measured, and which are therefore measured at cost.

A gain or loss arising from sale or redemption or a change in the fair value of a Hft financial asset is recognised in profit or loss in item "80. Gains (Losses) on financial assets and liabilities held for trading", with the exception of financial derivatives relating to a fair value option of whose gains and losses, either realised or unrealised, are booked in item "110. Gains (Losses) on financial assets/liabilities at fair value through profit and loss" (see Section 5 - Financial Instruments at Fair Value through Profit and Loss). If the fair value of a financial instrument falls below zero, which may happen with derivative contracts, it is recognised in item "40. Financial liabilities held for trading".

A derivative is a financial instrument or other contract that presents all three of the following characteristics:

- its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable (usually called the 'underlying') provided that in case of non-financial variable, this is not specific of one of the parties;
- it requires no initial net investment or an initial net investment that is lower than would be required for other types of contracts that would be expected to have a similar response to changes in market factors;
- it is settled at a future date.

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

An embedded derivative is separated from the host contract and recognised as a derivative if:

- the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative;
- the hybrid (combined) instrument is not measured entirely at fair value through profit or loss.

If it is necessary to separate an embedded derivative from its host contract, but it is not possible to measure the embedded derivative separately either at acquisition or at a subsequent financial reporting date, the entire combined contract is treated as a financial asset or financial liability at fair value through profit or loss.

When an embedded derivative is separated, the host contract is recognised according to its accounting classification.

A derivative which is attached to a financial instrument but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.

## 2 - Available-for-sale financial assets (AFS)

Available-for-sale financial assets are non-derivative financial assets designated as available for sale or not classified as loans and receivables, held-to-maturity investments, financial assets held for trading or financial assets at fair value through profit or loss. These assets are held for an indefinite period of time and can meet the need to ensure liquidity and face changes in interest rates, exchange rates and prices.

AfS financial assets are money market instruments, other debt instruments (included host contract of hybrid instruments from which embedded derivative has been bifurcated) or equity instruments and other "non-monetary items" (e.g. UIF, etc.); they include shares held as minority stakes where these do not constitute controlling or associate interests or joint control.

On initial recognition, at settlement date, an AfS financial asset is measured at fair value, which is usually equal to the consideration of the transaction, plus transaction costs and income directly attributable to the instrument.

In subsequent periods AfS assets are measured at fair value, the interest on interest-bearing instruments being recognised at amortised cost in the income statement. Gains or losses arising out of changes in fair value are recognised in equity item "130. Revaluation reserves", except losses due to impairment and exchange rate gains or losses on monetary items (debt instruments) which are recognised under item "130. Net losses/recoveries on impairment: b) available-for-sale financial assets" and item "80. Gains (Losses) on financial assets and liabilities held for trading" respectively, until the financial asset is sold, until cumulative gains and losses presented in Revaluation reserves are recognised in profit or loss in item "100. Gains (Losses) on disposal or repurchase of: b) available-for-sale financial assets".

The fair value changes recorded in in the Statement of Comprehensive Income and disclosed in item "130. Revaluation reserves".

Equity instruments (shares and other non-monetary items) not listed in an active market and whose fair value cannot be reliably determined due to the lack or unreliability of information for the fair value measurement are valued at cost, equivalent to the last fair value reliably measured.

If there is clear evidence of an impairment loss on an available-for-sale financial asset, the cumulative loss that had been recognised directly in equity item "130. Revaluation reserves", is removed from equity and recognised in profit or loss under item "130. Net losses/recoveries on impairment: b) available-for-sale financial assets".

In respect of debt instruments, any circumstances indicating that the borrower/issuer is experiencing financial difficulties which could prejudice the collection of the principal or interest, represent an impairment loss.

Lasting loss of value of equity instruments is assessed on the basis of indicators such as fair value below cost and adverse changes in the environment in which the company operates, as well as the issuer's debt service difficulties.

In particular the loss of value is normally considered lasting if fair value falls to less than 50% of cost or lasts for more than 18 months.

If instead the fall in the fair value of the instrument is over 20% but less than or equal to 50% or continues for no less than 9 months but no longer than 18 months, UniCredit reviews further income and market indicators. If the results of the review are such as to prejudice the recovery of the amount originally invested, a lasting loss of value is recognised.

The amount taken to profit and loss is the difference between the carrying amount (value of initial recognition less any impairment loss already recognised in profit or loss) and current fair value.

## Part A - Accounting Policies

Where instruments are valued at cost, the amount of the loss is determined as the difference between their carrying value and the present value of estimated future cash flows, discounted at the current market yield on similar financial assets (the recoverable amount).

If, in a subsequent period, the fair value of a debt instrument increases and the increase can objectively relates to an event such as an improvement in the debtor's credit worthiness occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed and the amount of the reversal is recognised in the same profit or loss item. The reversal cannot result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised.

Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available for sale are not reversed through profit or loss, but recognised at equity.

### 3 - Held-to-maturity investments (Htm)

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity different from those that may be classified in Loans and receivables for which there is positive intention and ability to hold them to maturity (included host contract of hybrid instruments from which embedded derivative has been bifurcated, whose value is represented by the difference between the total amount received and the fair value of the embedded derivative).

If, during the financial year, a significant amount of held-to-maturity investments is sold or reclassified before maturity, the remaining HtM financial assets shall be reclassified as available-for-sale and no financial assets shall be classified as HtM investments for the two following financial years, unless the sales or reclassifications:

- are so close to maturity or the financial asset's call date that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- occur after the collection of almost all the financial asset's original principal through scheduled payments or prepayments;
- are attributable to an isolated event that is beyond the reporting entity's control, is non-recurring and could not have been reasonably anticipated.

After the initial recognition at its fair value, which will usually be the price paid including transaction costs and income directly attributable to the acquisition or provision of the financial asset (even if not yet settled), a held-to-maturity financial asset is measured at amortised cost using the effective interest method. The difference between the carrying value of the asset and the amount received is taken to profit and loss under item "100. Gains (Losses) on disposal and repurchase of: c) held-to-maturity investments" when the financial asset is derecognised.

If there is clear evidence that a held-to-maturity investment is impaired, the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted using the original effective interest rate of the financial asset. The carrying amount of the asset is reduced accordingly and the loss is recognised in profit or loss under item "130. Net losses/recoveries on impairment: c) held-to-maturity investments".

If, in a subsequent period, the amount of an impairment loss decreases and the decrease can relates objectively to an event such as an improvement in the debtor's credit worthiness occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed. The reversal cannot result in a carrying amount of the financial asset that exceeds the amortised cost had the impairment not been recognised. The amount of the reversal is recognised in the same profit or loss item.

Held-to-maturity investments can be hedged only for credit and currency risks.

### 4 - Loans and receivables

#### Loans and Advances

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are recognised on the date of disbursement to the borrower which may coincide with the date of contract signing.

These items include debt instruments with the above characteristics (included host contract of hybrid instruments from which an embedded derivative has been bifurcated) or those subject to portfolio reclassification in accordance with the rules of IAS39 (see Part A.3.1 below - Transfers between portfolios).

After initial recognition at fair value, which is usually the price paid including transaction costs and income directly attributable to the acquisition or issuance of the financial asset (even if not yet paid), a loan or receivable is measured at amortised cost, which can be adjusted to take account of any write-downs/write-backs resulting from the valuation process.

A gain (or loss) on loans and receivables is recognised in profit or loss:

- when a loan or receivable is derecognised due to its disposal, in item "100. Gains (Losses) on disposal and repurchase of: a) loans";
- or:
- when a loan or receivable is impaired (or the impairment loss previously recognised is reversed in item "130. Net losses/recoveries on impairment: a) loans".

Interest on loans and receivables is recognised in profit or loss on an accrual basis by using the effective interest rate method under item "10. Interest income and similar revenue".

Delay interest is taken to the income statement on collection or receipt.

Loans and receivables are reviewed in order to identify those that, following events occurring after initial recognition, show clear evidence of possible impairment. These impaired loans are reviewed and analysed periodically at least once per year.

A loan or receivable is deemed impaired when it is considered that it will probably not be possible to recover all the amounts due according to the contractual terms, or equivalent value.

Allowances for impairment of loans and receivables are based on the present value of expected cash flows of principal and interest, which coherently with portfolio business management model, can refer also to market operations. In determining the present value of future cash flows, the basic requirement is the identification of estimated collections, the timing of payments and the rate used.

The amount of the loss on impaired exposure classified as bad loans and unlikely to pay, according to the categories specified below, is the difference between the carrying value and the present value of estimated cash flows discounted at the original interest rate of the financial asset.

For all fixed rate positions the interest rate so determined is kept constant also in subsequent financial years, while for floating rate positions the interest rate is updated on the basis of the contractual terms.

If the original rate cannot be directly found, or if finding it would be excessively onerous, its best estimation is applied, even using practical expedients that do not alter the substance and the coherence with international accounting standards.

Recovery times are estimated on the basis of business plans or in forecasts based on historical recovery experience observed for similar classes of loans, taking into account the segment of the customers, the type of loan, the type of security and any other factors considered relevant or, if necessary, of expected market transactions.

Any subsequent change vis-à-vis initial expectations of the amount or timing of expected cash flows of principal and interest causes a change in allowances for impairment and is recognised in profit or loss in item "130. Net losses/recoveries on impairment: a) loans".

In the Notes to the Accounts, write-downs of impaired loans are classified as specific in the relevant income statement item even when the calculation is flat-rate or statistical, as indicated below.

When the reasons for the impairment no longer exist, and this assessment is objectively attributable to an event such as an improvement in the debtor's credit worthiness occurred after the impairment, a reversal is made in the same profit or loss item, within the amount of the amortised cost that there would have been if there had been no impairments.

Derecognition of a loan or receivable in its entirety (write-off) is made when the legal rights on the loan have failed or the loan or receivable is deemed to be irrecoverable or is written off. Write-offs are recognised directly in profit or loss under item "130. Net losses/recoveries on impairment: a) loans" and reduce the amount of the principal of the loan or receivable. Reversals of all or part of amounts previously written off are recognised in the same item.

According to Banca d'Italia regulations, set out in Circular No.272 of 30 July 2008 and subsequent updates, loans classified as 'impaired' based on the characteristics set out in paragraphs 58-62 of IAS39, correspond to the category Non-Performing Exposures as defined by ITS EBA (EBA/ITS/2013/03/rev1 7/24/2014).

## Part A - Accounting Policies

In particular, EBA has defined Non-performing exposures as those that satisfy one or both of the following criteria:

- material exposures past-due by more than 90 days;
- exposures for which the bank considers it unlikely that the debtor can entirely fulfil its credit obligations, without proceeding with the enforcement and realisation of collateral, regardless of whether exposures are past due and regardless of the number of past due days.

In addition the mentioned EBA standards have introduced the definition of “forborne” exposures, i.e. debt contracts in respect of which forbearance measures have been extended. Forbearance measures consist of concessions towards a debtor facing or about to face difficulties in meeting its financial commitments (“financial difficulties”), i.e. modifications of the previous contractual terms and conditions or total or partial refinancing<sup>8</sup>. Forborne exposures may be classified in the risk category of non-performing loans (bad loans, unlikely-to-pay, past-due impaired) or performing loans. With reference to the assessments of impairment and provisions for Forborne exposures, the accounting policies applied are in line with the general criteria in accordance with IAS39 requirements with the following clarification on forborne exposures classified as unlikely to pay.

The same Circular No.272 further classifies non-performing exposures in the following categories:

- **Bad loans:** refers to on-balance sheet and off-balance sheet exposures that are formally considered as uncollectable, towards borrowers that are in insolvency (even not judicially ascertained) or an equivalent situation. The impairment loss assessment is performed in general on an analytical basis (including the validation of the provision with coverage levels statistically defined for certain loan portfolios below a set threshold). In case of not significant amounts, the assessment of impairment loss is performed on a collective basis aggregating similar exposures.
- **Unlikely to pay:** refers to on-balance and off-balance sheet exposures that meet the definition of unlikely to pay, which do not meet the conditions to be classified as bad loans. The classification as “unlikely to pay” derives from the assessment of the debtor’s unlikeliness (without actions such as realisation of collateral) to repay fully his credit obligation (principal and/or interest). The classification within the unlikely to pay category is not necessarily related to the explicit presence of anomalies (repayment failure) but it’s rather tied to the existence of evidence of a debtor’s risk of default. The impairment loss assessment is performed in general on analytical basis (also checking the coverage level which is statistically defined for certain loan portfolios below a set threshold) or on a collective basis aggregating similar exposures.

The exposure classified as unlikely to pay and qualified as forborne can be reclassified back to performing loans only after one year since the forbearance measure has been granted and provided that the conditions set for in paragraph 157 of the Implementing Technical Standard of EBA are met. With reference to their provisioning:

- measurement is performed in general on a loan-by-loan basis and the resulting allowance may include the discounted cost due to renegotiation of the interest rate at a lower rate than the original contractual rate;
- loans under renegotiation involving a debt/equity swap are valued, pending swap finalisation, on the basis of the conversion agreements entered into on the balance-sheet date. Any differences between the value of the loans and the fair value of the shares at the initial recognition are taken to profit and loss as write-downs.
- **Non-Performing past-due:** they are on-balance-sheet exposures, other than those classified among bad loans or unlikely to pay, which, at the reference date, have amounts that are past-due or over limits. Not-performing past-due amounts are determined by UniCredit S.p.A. making reference to the single debtor. In particular, they include the total exposure to any borrower not included in the categories of bad loans or unlikely to pay, which at the balance-sheet date has expired facilities or unauthorised overdrafts that are more than 90 days past due and meet the requirements set out by local supervisory regulations for their classification under the “past due exposures” category (TSA banks, that adopt a standardised approach) or under the “defaulted exposures” category (IRB banks). Overdue exposures are valued using a statistical approach based on historical data, applying where available the degree of risk as measured by the risk factor used for Regulation (EU) No.575/2013 (CRR) on prudential requirements for credit institutions and investment firms reporting (LGD - Loss given default).

Collective assessment is used for groups of performing loans for which individually there are no indicators of impairment: to these portfolios a latent impairment can be attributed, according to the method described below, inter alia on the basis of the risk factors used under supervisory regulations CRR.

In particular each loan with similar characteristics in terms of credit risk, in relation to loan type, the borrower’s sector of economic activity, geographical location, type of security or other relevant factors, is assessed in terms of its Probability of Default (PD) and Loss Given Default (LGD); these are uniform for each class of loan.

The methodology used combine supervisory regulations, CRR recommendations and IFRS. The latter exclude future loan losses, not yet sustained, but include losses already sustained even if they were not manifest at the date of measurement, on the basis of past experience of losses on assets with a similar risk profile to the assets being measured.

The average time elapsed from the deterioration of borrowers’ financial condition to the recognition of impairment losses, in relation to any homogeneous group of exposures, is the Loss Confirmation Period (LCP).

<sup>8</sup> For further details on the definition of forborne exposure and the related impacts on the loan process please refer to part E - Section 1 - Paragraph 2.4 Non-Performing Exposures.



The portfolio valuation of performing exposures is the product of the risk factors derived from the parameters used under CRR requirements, with one-year time horizon, and the above loss confirmation periods (LCP), expressed as part of a year and diversified according to Loan classes on the basis of the characteristics of the customer's segment/portfolios.

If these indicators are not available, estimated value and standard loss percentages, based on internal historical series and sectorial studies, shall be used.

Allowances for unsecured loans to residents of countries experiencing debt service difficulties, where the transfer risk is not included in the rating system applied, are generally determined, country by country, with the aim of attributing latent impairment on the basis of shared parameters. Allowances for impairment reduce the loan or receivable's carrying amount.

### Loan Securitisations

Loans and receivables also include, according to the applicable product breakdown, loans securitised after 1 January 2002 which cannot be derecognised under IAS39 (see Section 17 - Other information - Derecognition).

Corresponding amounts received for the sale of securitised loans, net of the amount of any issued securities and any other type of credit enhancement held in portfolio (retained risk) are recognised in liability items "10. Deposits from banks" and "20. Deposits from customers". Both assets and liabilities are measured at amortised cost and interest received is recognised through profit or loss. Impairment losses on securitised assets sold but not derecognised are reported in item "130. Net losses/recoveries on impairment: a) loans".

### Guarantees

These include all personal guarantees issued by the bank to secure third parties' obligations.

This portfolio is valued on the basis of impairment losses due to a worsening of the solvency of the guaranteed party calculated on a case-by-case basis in respect of guarantees given on behalf of debtors classified as bad loans, unlikely to pay.

In respect of guarantees issued on behalf of debtors classified as "Non-Performing Past due Exposures", expected loss is estimated on the basis of the riskiness of the type of guarantee and underlying risk mitigation instruments.

In respect of guarantees issued on behalf of debtors classified as "performing exposures", and on behalf of debtors classified as Performing Past due is calculated on the basis of the amount of losses incurred but not reported due to the time elapsed between the deterioration of creditworthiness and the calling of the guarantee.

Risk arising from off-balance sheet items, e.g. loan commitments or released guarantees, is recognised in profit and loss under item "130. Net losses/recoveries on impairment: d) other financial assets" contra liability item "100. Other Liabilities".

Subsequent write-backs may not exceed the amount of write-downs (whether individual or generic) previously recognised due to impairment.

## 5 - Financial instruments at fair value through profit or loss

Any financial asset may be designated, in accordance with the provisions of IAS39 as a financial instrument measured at fair value through profit and loss on initial recognition, except for the following:

- investments in equity instruments for which there is no price quoted in active markets and whose fair value cannot be reliably determined;
- derivatives.

FiaFV includes financial assets:

- not belonging to regulatory trading book, whose risk is:
  - connected with debt positions measured at fair value (see also Section 15 - Financial liabilities at fair value through profit and loss);
  - and managed by the use of derivatives not treatable as accounting hedges.
- represented by hybrid (combined) instruments containing embedded derivatives that otherwise should have been separated from the host contract.

FiaFV are accounted for in a similar manner to "HT financial assets" (see Section 1 - Financial Assets held for trading), however gains and losses, whether realised or unrealised, are recognised in item "110. Gains (Losses) on financial assets/liabilities at fair value through profit or loss".

## Part A - Accounting Policies

### 6 - Hedge accounting

Hedging instruments are created to hedge market (interest-rate, currency and price) and/or credit risk to which the hedged positions are exposed. They may be described as follows:

- **Fair value hedge:** a hedge of the exposure to changes in fair value of a recognised asset or liability, or an identifiable portion of such an asset or liability;
- **Cash flow hedge:** a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction which could affect profit or loss in future periods;
- **Hedge of a net investment in a foreign entity,** whose operations are presented in a currency other than euro.

Hedging derivatives are initially recognised on trade date and are valued at their fair value.

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 prospective and retrospective effectiveness will be assessed. It is necessary to assess the hedge's 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.

Generally 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, and the retrospectively verified that the hedge ratio (i.e. the changes in fair value of hedged items and hedging instruments) 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 has been 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.

In addition, the hedging relationship ceases when (i) the hedging instrument expires or is sold, terminated or exercised, (ii) the hedged item is sold, expires or is repaid, (iii) it is no longer highly probable that the forecast transaction will occur.

Hedging instruments are so designated when identifiable with an ultimate counterparty outside the Group.

Hedging derivatives are measured at fair value. Specifically:

- **Fair Value Hedging** - an effective fair value hedge is accounted for as follows: the gain or loss from remeasuring the hedging instrument at fair value is recognised through profit or loss in item "90. Fair value adjustments in hedge accounting"; the gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the hedged item and is recognised through profit or loss in the same item. Hedging ineffectiveness is represented by the difference between the change in the fair value of hedging instruments and the change in the fair value of hedged item. If the hedging relationship is terminated for reasons other than the sale of the hedged item, the difference between the carrying amount of the hedged item on termination of the hedging and the carrying amount it would have had if the hedge had never existed, is recognised through profit or loss in interest receivable or payable over the residual life of the original hedge, in the case of interest-bearing instruments; if the financial instrument does not bear interest, the difference is recognised in profit or loss under item "90. Fair value adjustments in hedge accounting" at once. If the hedged item is sold or repaid, the portion of fair value which is still unamortised is at once recognised through profit or loss in item "100. Gains (Losses) on disposal and repurchase";
- **Cash Flow Hedging** - hedging instruments are valued at fair value. Change in the fair value of a hedging instrument that is considered effective is recognised in equity item "130. Revaluation reserves". The ineffective portion of the gain or loss is recognised through profit or loss in item "90 Fair value adjustments in hedge accounting". If a cash flow hedge is determined to be no longer effective or the hedging relationship is terminated, the cumulative gain or loss on the hedging instrument that remains recognised in *revaluation reserves* from the period when the hedge was effective remains separately recognised in *revaluation reserves* until the forecast hedged transaction occurs or is determined to be no longer possible; in the latter case gains or losses are transferred through profit or loss to "90 Fair value adjustments in hedge accounting". The fair value changes are recorded in the Statement of Comprehensive Income and disclosed in item "130. Revaluation reserves";
- **Hedging a Net Investment in a Foreign Entity** - hedges of a net investment in a foreign entity whose activities are based or conducted in a country or currency other than those of the reporting entity are accounted for similarly to cash flow hedges. The gain or loss on the hedging instrument relating to the effective portion of the hedge that has been recognised directly in equity is recognised through profit or loss on disposal of the foreign entity. The fair value changes are recorded in the Statement of Comprehensive Income and disclosed in item "130. Revaluation reserves"; the ineffective portion of the gain or loss is recognised through profit or loss in item "90. Fair value adjustments in hedge accounting";
- **Macro-hedges of Financial Assets (Liabilities)** - IAS39 allows a fair-value item hedged against interest rate fluctuations to be not only a single

asset or liability but also a monetary position contained in a number of financial assets or liabilities (or parts of them); accordingly, a group of derivatives can be used to offset fair-value fluctuations in hedged items due to changes in market rates. Macro-hedging may not be used for net positions resulting from the offsetting of assets and liabilities. As for fair value micro hedging, macrohedging is considered highly effective if, at the inception of the hedge and in subsequent periods, changes in the fair value attributable to the hedged position are offset by changes in fair value of the hedging instrument and if the hedge ratio is retrospectively assessed falling within the range of 80-125 per cent. Net changes, gains or losses, in the fair value of the macro-hedged assets and liabilities attributable to the hedged risk are recognised in asset item 90. and liability item 70., respectively and offset the profit or loss item "90. Fair value adjustments in hedge accounting". The ineffectiveness of the hedging arises to the extent that the change in the fair value of the hedging item differs from the change in the fair value of the hedged monetary position. The extent of hedge ineffectiveness is in any case recognised in profit and loss item "90. Fair value adjustments in hedge accounting". If the hedging relationship is terminated, for reasons other than the sale of the hedged items, cumulative gain or loss in items 90. (Assets) and 70. (Liabilities) is recognised through profit or loss in interest income or expenses, along the residual life of the hedged financial assets or liabilities. If the latter are sold or repaid, unamortised fair value is at once recognised through profit and loss in item "100. Gains (Losses) on disposal and repurchase".

## 7 - Equity investments

Equity investments are equity instruments and consequently defined as financial instruments under IAS32.

Investments in equity instruments made with the intention of establishing or maintaining a long-term operational relationship with the investee are strategic investments.

The following are the types of equity investment:

### Subsidiaries

Entities, including structured entities, over which the Bank has direct or indirect control, are considered subsidiaries. Control over an entity entails the Bank's ability to exercise power in order to influence the variable returns to which the Bank is exposed through its relationship with them.

In order to verify the existence of control, the Group considers the following factors:

- the purpose and establishment of the investee in order to identify which are the entity's objectives, the activities that determine its returns and how these activities are ruled;
- the power in order to understand whether the Group has contractual rights that attribute the ability to rule the relevant activities; to this end only substantial rights that provide practical ability to rule are considered;
- the exposure held in relation to the investee in order to assess whether the Group has relationships with the investee, the returns of which are subject to changes deriving from variations in the investee's performance;
- the existence of potential principal - agent relationships.

If the relevant activities are ruled through voting rights, the existence of control is verified considering the voting rights held, including the potential ones, and the existence of any shareholders' or other agreements which attribute the right to control the majority of the voting rights, to appoint the majority of the governing body or in any case the power to determine the entity's financial and operating policies.

Subsidiaries may also include any "structured entity" in which the voting rights are not significant for establishing control, including special purpose entities and investment funds.

In the case of structured entities, the existence of control is ascertained considering both the contractual rights that enable governance of the relevant activities (or those that contribute most to the results) and the Group's exposure to the variability of returns deriving from these activities.

### Joint venture

A joint venture is an entity in which the Bank has:

- a joint control agreement;
- rights on the net assets of the entity.

In detail a joint control exists when the decisions over the relevant activities require the unanimous consent of all the parties that share control.

## Part A - Accounting Policies

### Associates

An associate is an entity over which the investor has significant influence and which are not subsidiaries or joint ventures.

Significant influence is presumed when the investor:

- holds, directly or indirectly, at least 20% of the share capital of another entity, or
- is able, also through shareholders' agreements, to exercise significant influence through:
  - representation on the governing body of the company;
  - participation in the policy-making process, including participation in decisions about dividends or other distributions;
  - the existence of significant transactions;
  - interchange of managerial personnel;
  - provision of key technical information.

It should be noted that only companies which are governed through voting rights can be classified as subject to significant influence.

Investments in subsidiaries, associates and joint ventures are measured at cost.

The purchase price of an equity investment is the sum of:

- the fair value, at the date of acquisition, of the assets sold, liabilities assumed and equity instruments issued by the purchaser in exchange for control of the investee;
- and
- any cost directly attributable to the acquisition.

If there is evidence that an equity investment may have become impaired, its carrying value is compared with its recoverable value, which is determined on the basis of its value in use, in turn calculated by means of valuation models in general use in financial business, which discount expected future cash flow from the equity investment.

If it is not possible to obtain sufficient information the value in use is considered to be the net worth of the company.

If the recovery value is less than the carrying value, the difference is recognised through profit or loss in item "210. Profit (Loss) of equity investments". If the reasons for impairment are removed following a subsequent event occurring after the recognition of impairment, write-backs are made through same profit or loss item.

Equity investments considered strategic investments not covered by the above definitions and not recognised in item "140. Non-current assets and disposal groups held for sale" and item "90. Liabilities included in disposal groups classified as held for sale" (see Section 10 - Non-current Assets Held for Sale), are classified as available for sale financial assets or financial assets measured at fair value, and treated accordingly (see Sections 2 - Available-for-sale Financial Assets and Section 5 - Financial Instruments at Fair Value through Profit or Loss).

## 8 - Property, plant and equipment

The item includes:

- land;
- buildings;
- furniture and fixtures;
- plant and machinery;
- other machinery and equipment;

and is divided between:

- assets used in the business;
- assets held as investments.

Assets used in the business are held for use in the production or supply of goods or services or for administrative purposes and are expected to be used for more than one period. This category also (conventionally) includes assets to be let or under construction and to be leased under a finance lease, only for those finance leases which provide for retention of risk by the lessor until the acceptance of the asset by the lessee and the start of rentals under the finance lease (see also Section 4 - Loans and Receivables, for transactions with transfer of risk are recognised).

The item includes assets used as lessee under a finance lease, or let/hired out as lessor under an operating lease.

Property, plant and equipment also include leasehold improvements relating to assets which can be separately identified. They are classified according to the specific sub-items relating to the asset type (e.g. plants). Leasehold improvements are usually borne in order to make leased premises fit for the expected use.

Improvements and additional expenses relating to property, plant and equipment identifiable but not separable are recognised in item "150. Other assets".

Assets held for investment purposes are properties covered by IAS40, i.e. properties held (owned or under a finance lease) in order to derive rentals and/or a capital gain.

Property, plant and equipment are initially recognised at cost including all costs directly attributable to bringing the asset into use (transaction costs, professional fees, direct transport costs incurred in bringing the asset to the desired location, installation costs and dismantling costs).

Subsequent costs are added to the carrying amount or recognised as a separate asset only when it is probable that there will be future economic benefits in excess of those initially foreseen and the cost can be reliably measured.

Other expenses borne at a later time (e.g. normal maintenance costs) are recognised in the year they are incurred in profit and loss items:

- "150. Administrative costs: b) other administrative expense", if they refer to assets used in the business;

or:

- "190. Other net operating income", if they refer to property held for investment.

After being recognised as an asset, an item of property, plant and equipment is carried at cost less any accumulated depreciation and any cumulative impairment losses.

An item with a finite useful life is subject to straight-line depreciation.

Residual useful life is usually assessed as follows:

- Buildings up to 33 years;
- Furniture up to 7 years;
- Electronic equipment up to 12 years;
- Other up to 7 years;
- Leasehold Improvements up to 15 years.

An item with an indefinite useful life is not depreciated.

Land and buildings are recognised separately, even if acquired together. Land is not depreciated since it usually has an indefinite useful life. Buildings have instead a finite useful life and are therefore subject to depreciation.

The estimate of the useful life of an asset is reviewed at least at each accounting period-end on the basis *inter alia* of the conditions of use of the asset, of maintenance conditions and expected obsolescence, and, if expectations differ from previous estimates, the depreciation amount for the current and subsequent financial years is adjusted accordingly.

If there is clear 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 flow expected to originate from the asset. Any value adjustment is recognised in profit and loss item "170. Impairment/write-backs on property, plant and equipment".

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

An item of property, plant and equipment is derecognised (i) on disposal or (ii) when no future economic benefits are expected from its use or sale in the future and any difference between sale proceeds or recoverable value and carrying value is recognised in profit and loss item "240. Gains (Losses) on disposal of investments" or "170. Impairment/write-backs on property, plant and equipment", respectively.

## Part A - Accounting Policies

### 9 - Intangible assets

An intangible asset is an identifiable non-monetary without physical substance which is expected to be used for more than one period and from which future economic benefits are probable.

Intangible assets are principally goodwill, software, brands and patents.

This item also includes intangible assets used 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.

Costs sustained after purchase are:

- added to initial cost, provided they increase future economic benefits arising from the underlying asset (i.e. if they increase its value or productive capacity);
- in other cases (i.e. when they do not increase the asset's original value, but are intended merely to preserve its original functionality) are taken to profit or loss in a single amount in the year in which they have been borne.

An intangible asset with a definite life is subject to straight-line amortisation over its estimated useful life.

Residual useful life is usually assessed as follows:

- Software up to 10 years;
- Other intangible assets up to 10 years.

Intangible assets with an indefinite life are not amortised.

If there is clear 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 profit and loss item "180. Impairment/write-backs on intangible assets".

For an intangible asset with indefinite life even if there are no indications of impairment, the carrying amount is compared annually with its recoverable value. If the carrying amount is greater than the recoverable value, the difference is recognised in profit and loss item "180. Impairment/write-backs on intangible assets".

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 (i) on disposal or (ii) when any further future economic benefits are expected from its use or sale in the future and any difference between sale proceeds or recoverable value and carrying value is recognised in the profit and loss item "240. Gains (Losses) on disposal of investments" or "180. Impairment/write-backs on intangible assets", respectively.

#### Goodwill

In accordance with IFRS3, goodwill is the excess of the cost of a business combination over the net fair value of the assets and liabilities acquired at the acquisition date.

Goodwill arising from the acquisition of subsidiaries and joint ventures (consolidated proportionately) is recognised as an intangible asset, whereas goodwill arising from the acquisition of associates is included in the carrying amount of the investments in associates.

At a subsequent financial reporting date, goodwill is recognised net of any cumulative impairment losses and is not amortised.

Goodwill is tested for impairment annually, as for other intangible assets with an indefinite life.

Impairment losses on goodwill are recognised in profit and loss item "230. Impairment of goodwill". In respect of goodwill, no write-backs are allowed.

## 10 - Non-current assets held for sale

These categories include individual assets held for disposal (tangible, intangible and financial assets) or groups of assets held for sale, with the related liabilities, as required by IFRS5.

Individual assets (or groups of assets held for sale) are recognised in item “140. Non-current assets and disposal groups classified as held for sale” and item “90. Liabilities included in disposal groups classified as held for sale”, respectively, at the lower of their carrying amounts and fair values less costs to sell.

The revaluation reserves relating to Non-current assets classified as held for sale, which are recorded as a contra item to changes in value relevant for this purpose, are reported separately in the Statement of Comprehensive Income (see Part D - Comprehensive Income).

The net balance of profits (dividends, interest income, etc.) and losses (interest expense, etc.) attributable to groups of assets or liabilities held for sale are recognised in the income statement under item “280. Gains (losses) on groups of assets held for sale, net of tax”. Profits and losses attributable to individual assets held for disposal are recognised in the income statement under the appropriate item.

## 11 - Current and deferred tax

Tax assets and tax liabilities are recognised in the Balance Sheet respectively in item 130. of assets (“Tax assets”) and item 80. of liabilities (“Tax liabilities”).

In compliance with the “Balance sheet method”, current and deferred tax items are:

- current tax assets, i.e. amount of tax paid in excess of income tax due in accordance with local tax regulations;
- current tax liabilities, i.e. amounts of corporate tax due in accordance with local tax regulations;
- deferred tax assets, i.e. amounts of income tax recoverable in future fiscal years and attributable to:
  - deductible temporary differences;
  - the carryforward of unused tax losses;
  - the carryforward of unused tax credits;
- deferred tax liabilities, i.e. the amounts of income tax due in future fiscal years in respect of taxable temporary differences.

Current tax assets and tax liabilities are calculated in accordance with local tax regulations and are recognised in profit or loss on an accrual basis. In particular current corporate tax (“IRES”) is calculated at a rate of 27.50%; the regional tax on productive activity (“IRAP”) is applied on a regional basis. The national rate is set at 4.65%, to which each Region can autonomously increase a surcharge up to 0.92%, therefore theoretically a rate of 5.57% (plus an additional surcharge of 0.15% provided for the Regions with an healthcare deficit status).

In general, deferred tax assets and liabilities arise when there is a difference between the accounting treatment and the tax treatment of the carrying amount of an asset or liability.

Deferred tax assets and liabilities are recognised applying tax rates that at the balance sheet date are expected to apply in the period when the carrying amount of the asset will be recovered or the liability will be settled on the basis of tax regulations in force, and are periodically reviewed in order to reflect any changes in regulations.

Under the tax consolidation system adopted by the Bank, deferred tax assets are recognised only to the extent that it is probable that sufficient taxable profit evaluated based on the Bank’s ability to generate it in future financial years will be available. Deferred tax liabilities are always recognised. In accordance with the provisions of IAS12, the probability that sufficient future taxable profit against which the deferred tax assets can be utilised will be available is reviewed periodically. The carrying amount of deferred tax assets should be reduced to the extent that it is not probable that sufficient taxable profit will be available.

Current and deferred taxes are recognised in profit and loss item “260. Tax expense (income) related to profit or loss from continuing operations”, except for tax referred to items that in the same or in another fiscal year are credited or charged directly to equity, such as those relating to gains or losses on available-for-sale financial assets and those relating to changes in the fair value of cash flow hedging instruments, whose changes in value are recognised, net of tax, directly in the Statement of Comprehensive Income - Valuation reserves.

IRES is determined on the basis of the “consolidato fiscale” rules pursuant to L.D.344/03; UniCredit S.p.A. opted to apply tax consolidation of the Group’s Italian entities (see also Part B of these Notes - Section 13.7 Further information).

## Part A - Accounting Policies

Current tax assets and liabilities are presented on the Balance Sheet net of the related current tax liabilities if the following requirements are met:

- existence of a legally enforceable right to offset the amounts recognised;
- the intention to extinguish for the remaining net, or realise the asset and at the same time extinguish the liability.

Deferred tax assets are presented on the Balance Sheet net of the related deferred tax liabilities if the following requirements are met:

- existence of an enforceable right to offset current tax assets with current tax liabilities; and
- the deferred tax assets and liabilities must relate to income taxes applied to the same tax authority on the same taxable entity or on different taxable entities that intend to settle the current tax liabilities and assets on a net basis (usually in presence of a “consolidato fiscale”).

## 12 - Provisions for risks and charges

### Retirement Payments and Similar Obligations

Retirement provisions, i.e. provisions for employee benefits payable after the completion of employment, are defined as contribution plans or defined-benefit plans according to the nature of the plan.

In detail:

- Defined-benefit plans provide a series of benefits depending on factors such as age, years of service and compensation policies. Under this type of plan actuarial and investment risks are borne by the company.
- Defined-contribution plans are plans under which the company makes fixed contributions. Benefits are the result of the amount of contributions paid and return on contributions invested. The employer bears no actuarial and/or investment risks connected with this type of plans as it has no legal or implicit obligation to make further contributions, should the plan not be sufficient to provide benefit to all employees.

Defined-benefit plans are present-valued by an external actuary using the Unit Credit Projection method.

This method distributes the cost of benefits uniformly over the employee's working life. Obligations are the present value of average future benefits pro rata to the ratio of years of service to theoretical seniority at the time of benefit payment.

More specifically, the amount recognised according to IAS19 Revised as a net liability/asset in item “120. Provisions for risks and charges: a) post-retirement benefit obligations” is the present value of the obligation at the balance sheet date, less any pension charges relating to benefits already provided but not yet recognised, less the fair value at the balance sheet date of plan assets other than those due to directly settle the obligations adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. Actuarial gains or losses arising from the valuation of defined-benefit liabilities are recorded in the Statement of Comprehensive Income and disclosed in the item “130. Revaluation reserves”.

The discount rate used to discount obligations (whether financed or not) relating to benefits to be provided after retirement varies according to the currency of denomination and country where the liabilities are allocated and is determined on the basis of market yield at the balance sheet date of prime issuers' bonds with an average life in keeping with that of the relevant liability.

### Other Provisions

Provisions for risks and charges are recognised when:

- the entity has a present obligation (legal or constructive) as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

The amounts recognised as provisions are the best estimate of the expenditure required to settle the present obligation.

The risks and uncertainties that inevitably surround the relevant events and circumstances are taken into account in reaching the best estimate of a provision.

In particular, where the effect of the time value of money is significant (generally when payment is to be made more than 18 months from recognition), the amount of the provision should be the present value of the best estimate of the cost required to settle the obligation. The discount rate used reflects the current market assessments.



Provisions are reviewed periodically and adjusted to reflect the current best estimate. If it becomes clear that it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

Provisions are used only for expenses for which they were originally recognised.

Allocations made in the year are recognised in profit and loss item "160. Net provisions for risks and charges" and include increases due to the passage of time; they are also net of any reversals.

"Other provisions" also include obligations relating to benefits due to agents, specifically supplementary customer portfolio payments, merit payments, contractual payments and payments under non-competition agreements, which are measured as per defined benefit plans; accordingly these obligations are calculated using the Unit Credit Projection method (see above under Retirement Payments and Similar Obligations).

In certain cases, provisions for risks and charges (e.g. fiscal charges or charges relating to payroll costs) have been classified under their own Profit and Loss item to better reflect their nature.

## 13 - Liabilities and securities in issue

The items "Deposits from banks", "Deposits from customers" and "Debt Securities in issue" are used for all forms of third-party funding other than trading liabilities or those valued at fair value through profit and loss.

These financial liabilities are recognised on the settlement date principle initially at fair value, which is normally the consideration received less transaction costs directly attributable to the financial liability. Subsequently these instruments are measured at amortised cost using the effective interest method.

Hybrid debt instruments relating to equity instruments, foreign exchange, credit instruments or indexes, are treated as structured instruments. The embedded derivative is separated from the host contract and recognised as a derivative, provided that separation requirements are met, and recognised at fair value. Any subsequent changes in fair value are recognised in profit and loss item "80. Gains (Losses) on financial assets and liabilities held for trading".

The difference between the total amount received and the initial fair value of the embedded derivative is attributed to the host contract.

Instruments convertible into treasury shares imply recognition, at the issuance date, of a financial liability and of the equity part recognised in item "150. Equity instruments", any time contractual terms provide for physical delivery settlement.

The equity part is initially measured at the residual value, i.e., the overall value of the instrument less the separately determined value of a financial liability with no conversion clause and the same cash flow.

The resulting financial liability is then recognised at amortised cost using the effective interest method.

Securities in issue are recognised net of repurchased amounts; the difference between the carrying value of the liability and the amount paid to buy it in is taken to profit and loss under item "100. Gains (Losses) on disposal and repurchase of: d) financial liabilities". Subsequent disposal by the issuer is considered as a new issue which doesn't produce gains or losses.

Debts do not include *covenants* that would cause default or restructuring events. There are no debt instruments involving convertibility to equity instruments (under IFRIC19 - Extinguishing Financial Liabilities with Equity Instruments).

## 14 - Financial liabilities held for trading

Financial liabilities held for trading include:

- derivatives that are not designated as hedging instruments;
- obligations to deliver financial assets borrowed by a short seller (i.e. an entity that sells financial assets it does not yet own);
- financial liabilities issued with an intention to repurchase them in the near term;
- financial liabilities that are part of a portfolio of financial instruments considered as a unit and for which there is evidence of a recent pattern of trading.

## Part A - Accounting Policies

A HfT liability, including a derivative, is measured at fair value initially and for the life of the transaction, except for a derivative liability settled by delivery of an unlisted equity instrument whose fair value cannot reliably be measured, and which is therefore measured at cost.

### 15 - Financial liabilities at fair value

According to IAS39 financial liabilities, like financial assets may also be designated on initial recognition as measured at fair value, provided that:

- this designation eliminates or considerably reduces the discrepancy that could arise from the application of different methods of measurement of assets and liabilities and related gains or losses;

or,

- a group of financial assets, financial liabilities or both are managed and measured at fair value under risk management or investment strategy which is internally documented with the entity's Board of Directors or equivalent body.

This category may also include financial liabilities represented by hybrid (combined) instruments containing embedded derivatives that otherwise should have been separated from the host contract.

These transactions are recognised as per HfT financial liabilities, gains and losses, whether realised or not, being recognised in item "110. Gains (Losses) on financial assets and liabilities at fair value through profit and loss".

### 16 - Foreign currency transactions

A foreign currency transaction is recognised at the spot exchange rate of the transaction date.

Foreign currency monetary assets and liabilities are translated at the closing rate of the period.

Exchange differences arising from settlement of monetary items at rates different from those of the transaction date and unrealised exchange rate differences on foreign currency assets and liabilities not yet settled, other than assets and liabilities designated as measured at fair value and hedging instruments, are recognised in profit and loss item "80. Gains (Losses) on financial assets and liabilities held for trading".

Exchange rate differences arising on a monetary item that is part of an entity's net investment in a foreign operation whose activities are based or conducted in a country or currency other than those of the reporting entity are initially recognised in the entity's equity, and recognised in profit or loss on disposal of the net investment.

Non-monetary assets and liabilities recognised at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency are translated at the closing rate. In this case the exchange differences are recognised:

- in profit and loss if the financial asset is HfT; or
- in the Statement of Comprehensive Income and disclosed in the Revaluation reserves if the financial asset is AfS.

Hedges of a net investment in a foreign operation are recognised similarly to cash flow hedges.

On the disposal of a foreign operation, the cumulative amount of the exchange rate differences, classified in an Equity reserve, is reclassified in profit or loss.

### 17 - Other information

#### Business Combinations

A business combination is a transaction through which an entity obtains control of a business segment, thus bringing together different businesses into one reporting entity.

A business combination may result in a Parent-subsidary relationship in which the acquirer is the Parent and the acquiree is a subsidiary of the acquirer. A business combination may involve the purchase of the net assets of another entity, in which case goodwill can arise, or the purchase of the equity of the other entity (mergers).

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

- i) identifying an acquirer;
- ii) measuring the cost of the business combination; and
- iii) 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 equity instruments issued by the acquirer, in exchange for control of the acquiree.

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.

A business combination may involve more than one exchange transaction; nevertheless, the cost of the business combination remains equal to the fair value of the total shareholding acquired. This involves the revaluation at fair value, and the recognition of the effects in the Income Statement, of the equity investments previously held in the acquired entity.

The cost of a business combination is allocated by recognising the assets, the liabilities and the identifiable contingent liabilities of the acquired company at their acquisition-date fair value. Exceptions to this principle are deferred income tax assets and liabilities, employee benefits, indemnification assets, reacquired rights, non-current assets held for sale, and share-based payment transactions that are subject to review in accordance with the principle applicable to them.

Positive difference between the cost of the business combination and the net fair value of the identifiable assets, liabilities and contingent liabilities so recognised is accounted for as goodwill.

After initial recognition, goodwill is 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 the case of business combinations resulting in a Parent company-subsidary (acquirer-acquiree) relationship, the equity investment is accounted for under the cost method.

### **Derecognition of financial assets**

Derecognition is the removal of a previously recognised financial asset from an entity's balance sheet.

Before evaluating whether, and to what extent, derecognition is appropriate, under IAS39 an entity should determine whether the relevant conditions apply to a financial asset in its entirety or to a part of a financial asset. The standard is applied to a part of financial assets being transferred if, and only if, the part being considered for derecognition meets one of the following conditions:

- the part comprises only specifically identified cash flows from a financial asset, or a group of assets, (e.g. interest cash flows from an asset);
- the part comprises a clearly identified percentage of the cash flows from a financial asset (e.g. a 90 per cent share of all cash flows from an asset);
- the part comprises only a fully proportionate (pro-rata) share of specifically identified cash flow (e.g. 90 per cent share of interest cash flows from an asset).

In all other cases, the standard is applied to the financial asset in its entirety (or to the group of similar financial assets in their entirety)

An entity shall derecognise a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the contractual rights to receive the cash flows of the financial asset to a third party.

Rights to cash flow are considered to be transferred even if contractual rights to receive the asset's cash flow are retained but there is an obligation to pay this cash flow to one or more entities and all the following conditions are fulfilled (pass-through agreement):

- there is no obligation on the Bank to pay amounts not received from the original asset;
- sale or pledge of the original asset is not allowed, unless it secures the obligation to pay cash flow;
- the Bank is obliged to transfer forthwith all cash flows received and may not invest them, except for liquidity invested for the short period between the date of receipt and that of payment, provided that the interest accrued in that period is paid on.

## Part A - Accounting Policies

Recognition is also subject to verification of effective transfer of all the risks and rewards of ownership of the financial asset. If the entity transfers substantially all the risks and rewards of ownership of the financial asset, the entity shall derecognise the asset (or group of assets) and recognise separately as assets or liabilities any rights and obligations created or retained in the transfer.

Conversely, if the entity substantially retains all the risks and rewards of ownership of the asset (or group of assets), the entity shall continue to recognise the transferred asset(s). In this case it is necessary to recognise a liability corresponding to the amount received under the transfer and subsequently recognise all income accruing on the asset or expense accruing on the liability.

The main transactions that do not allow, under the above rules, total derecognition of a financial asset are securitisations, repurchase (sell and buy-backs) and stock lending transactions.

In the case of securitisations the Bank does not derecognise the financial asset on purchase of the equity tranche or provision of other types of support of the structure which result in the Bank retaining the credit risk of the securitised portfolio.

In the case of repurchase transactions and stock lending, the assets transacted are not derecognised since the terms of the transaction entail the retention of all their risks and rewards.

Finally, it should be noted that securities lending transactions collateralised by other securities or not collateralised were recorded as off-balance sheet items.

### Repo Transactions and securities lending

Securities received in a transaction that entails a contractual obligation to sell them at a later date or delivered under a contractual obligation to repurchase are neither recognised nor derecognised. In respect of securities purchased under an agreement to resell, the consideration is recognised as a loan to customers or banks, or as an asset held for trading. In respect of securities held in a repurchase agreement, the liability is recognised as due to banks or customers, or as held for trading financial liability. Revenue from these loans, being the coupons accrued on the securities and the difference between the sale/purchase and resale/repurchase prices, is recognised in profit or loss through interest income and expenses on an accruals basis.

These transactions can only be offset if, and only if, they are carried out with the same counterparty and provided that such offset is provided for in the underlying contracts.

The same rules apply to securities lending transactions collateralised by cash fully available to the lender.

The P&L items connected with these transactions are booked respectively:

- in item Interest, with respect to the positive item (borrower) and the negative item (lender) relating to the return on cash paid to the lender;
- in item Fees and commissions, with respect to the negative item (borrower) and the positive item (lender) relating to the service provided by the lender by making the security available.

With reference to securities lending transactions collateralised by other securities, or not collateralised, the security lent or the security put up as collateral are still recognised as assets in the balance sheet, depending on the role, lender or borrower, respectively, played in the transaction.

Counterparty risk relating to the latter securities lending or borrowing transactions is shown under the tables of Part E - Section 1 - 1.1 Credit risk - A. Credit quality.

### Equity instruments

Equity instruments are instruments that represent a residual interest in Group's assets net of its liabilities.

Classification of an issued instrument as equity is possible only if there are no contractual obligation to make payments in form of capital redemptions, interest or other kinds of returns.

In particular, instruments having the following features are classified as equity instruments:

- the instrument is perpetual or has a maturity equal to duration of the entity;
- full discretion of the issuer in coupon payments and redemptions, also advanced, of the principal outstanding.

Additional Tier 1 instruments are included in this category, in line with the provisions of Regulation (EU) No.575/2013 (CRR) on prudential requirements for credit institutions and investment firms, if, additionally to the characteristics described above:

- i) maintain within the full discretion of the issuer the possibility to perform a write-up of the nominal value after the occurrence of a capital event that has determined a write-down;
- ii) do not incorporate outlook that force the issuer to provide for payments (must-pay clauses) following genuine events under the direct control of the parties.

Equity instruments, different from common or saving shares, are presented in item "150. Equity instruments" for the consideration received including transaction costs directly attributable to the instruments.

Any coupon paid, net of related taxes, reduces item "160. Reserves".

Any difference between the amounts paid for the redemption or repurchase of these instruments and their carrying value is recognised in item "160. Reserves".

### Treasury Shares

Changes in treasury shares are reported as a direct contra item to Shareholders' Equity, i.e. as a reduction to the latter in the amount of any purchases, and as an increase in the amount of any sales proceeds. This entails that, if treasury shares are subsequently sold, the difference between the sale price and the related post-tax repurchase cost is recognised entirely as a contra item to Shareholders' Equity.

### Finance Leases

Finance leases effectively transfer all the risks and benefits of ownership of an asset to the lessee; ownership of the asset is transferred to the lessee, however not necessarily at contractual maturity.

The lessee acquires the economic benefit of the use of the leased asset for most of its useful life, in exchange for a commitment to pay to the lessor an amount approximately equivalent to the fair value of the asset and related finance costs. Recognition in the lessor's accounts is as follows:

- in assets, the value of the loan, less the principal of lease payments due and paid by the lessee;
- in profit or loss, interest received.

See Sections 8 - Property, Plant and Equipment and 9 - Intangible Assets below for treatment of the lessee's assets.

### Factoring

Loans acquired in factoring transactions with recourse are recognised to the extent of the advances granted to customers on their consideration.

Loans acquired without recourse are recognised as such once it has been established that there are no contractual clauses that would invalidate the transfer of all risks and benefits to the factor.

### Italian Staff Severance Pay (Trattamento di fine rapporto - "TFR")

The "TFR" provision for Italy-based employee benefits is to be construed as a "post-retirement defined benefit". It is therefore recognised on the basis of an actuarial estimate of the amount of benefit accrued by employees discounted to present value. This benefit is calculated by an external actuary using the unit credit projection method (see Section 12 - under Provisions for Risks and Charges - *Retirement Payments and Similar Obligations*). This method distributes the cost of the benefit evenly over the employee's working life. The liability is determined as the present value of average future payments adjusted according to the ratio of years of service to total years of service at the time of payment of the benefit.

Following pension reform by Law No.252/2005, TFR installments accrued to 31 December 2006, to the date between 1 January 2007 and 30 June 2007 on which the employee opted to devolve their TFR to a supplementary pension fund) stay in the employer and are considered a post-employment defined benefit plan therefore incurring actuarial valuation, though with simplified actuarial assumptions, i.e. forecast future pay rises are not considered.

TFR installments accrued since 1 January 2007 (date of Law 252's coming into effect) (or since the date between 1 January 2007 and 30 June 2007) have been, at the employee's discretion, either (i) paid into a pension fund or (ii) left in the company and (where the company has in excess of 50 employees) are paid into an INPS Treasury fund by the employer, are assimilated to a defined-contribution plan.

Costs relating to TFR are recognised in the Income Statement in item "150. Administrative costs: a) staff expense" and include, for the part of obligations already existing at the date of the reform (assimilated to a defined benefit plan), interest cost accrued in the year; for the part of plan considered defined contribution plan, the accrued installments for the year paid into the complementary pension scheme or to the Treasury fund of INPS.

Actuarial gains (losses), i.e. the difference between the liabilities' carrying value and the present value of the obligation at the end of the period are recorded in the Statement of Comprehensive Income and disclosed in the Revaluation reserves according to IAS19 Revised.

## Part A - Accounting Policies

### Share-Based Payment

Equity-settled payments made to employees or other staff in consideration of goods received or services rendered, using equity instruments comprise:

- Stock options;
- Performance shares (i.e. awarded on attainment of certain objectives);
- Restricted shares (i.e. subject to a lock-up period).

Considering the difficulty of reliably measuring the fair value of the services rendered against equity-settled payments, reference is made to the fair value of the instruments themselves, measured at the date of the allocation.

This fair value is recognised as cost in profit and loss item "150. Administrative costs: a) staff expenses" offsetting the Shareholders' Equity item "160. Reserves", on an accruals basis over the period in which the services are rendered.

The fair value of a cash-settled share-based payment, the services acquired and the liability incurred are measured at the fair value of the liability, recognised in item "100. Other liabilities". The fair value of the liability, as long as it remains unsettled, is remeasured at each balance sheet date and all changes in fair value are recognised in profit and loss item "150. Administrative costs: a) staff costs".

### Other Long-term Employee Benefits

Long-term employee benefits, e.g. long-service bonuses, paid on reaching a predefined number of years' service, are recognised in item "100. Other liabilities" on the basis of the measurement of the liability at the balance sheet date, also in this case determined by an external actuary using the unit credit projection method (see Section 12 - Provisions for risks and charges - retirement payments and similar obligations). Actuarial gains (losses) on this type of benefit are recognised immediately in the Income Statement.

### Credit derivatives treated as financial guarantees given

Credit derivatives are treated as financial guarantees given, in accordance with IAS39, when they require the issuer to make specified payments to the holder to indemnify the latter for actual losses borne due to the default of a specific debtor on payment at a maturity set by a debt instrument.

The value of initial recognition is equal to their fair value, which is usually the amount received when the guarantee is issued, and is booked under item "100. Other liabilities".

The effects of valuation, related to any impairment of the underlying, are recognised in the same balance-sheet item contra item "130. Net losses/recoveries on impairment: d) other financial transactions" in the income statement.

### Offsetting Financial assets and Financial liabilities

The accounting offsetting of assets and liabilities items has been performed according to IAS32, assessing the fulfillment of the following requirements:

- a) current legally enforceable right to set off the recognised amounts;
- b) intention either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accordance with IFRS7, further information have been included in the table of Note to the accounts, in Part B - Other information.

In the new tables, in particular, following information have to be reported:

- balance-sheet values, before and after the accounting offsetting effects, related to the assets and liabilities which meet the criteria for applying those effects;
- values of the exposures which do not meet the above mentioned criteria, but are included in Master Netting Agreements, or similar agreements, which create the right to set-off only following specified circumstances (i.e. default events);
- figures of related collaterals.

## Recognition of income and expenses

### **Interest Income and Expenses**

Interest income and expenses and similar income and expense items relate to monetary items, i.e. liquidity and debt financial instruments (i) held for trading, (ii) measured at fair value through profit or loss or (iii) available for sale, HtM financial assets, loans and receivables, deposits, and securities in issue.

Interest income and expense are recognised through profit or loss with respect to all instruments measured at amortised cost, using the effective interest method.

Interest also includes the net credit or debit balance of differentials and margins on financial derivatives:

- hedging interest-bearing assets and liabilities;
- HtM but linked for business purposes to assets and liabilities designated as measured at fair value (fair value option);
- linked for business purposes to HtM assets and liabilities paying differentials or margins on different maturities.

### **Fees and Commissions**

Fees and commissions are recognised according to the provision of the services from which they have been originated.

Securities trading commission is recognised when the service is provided. Investment portfolio management fees, advisory fees and investment fund management fees are recognised on a pro-rata temporis basis.

Fees included in amortised cost used to calculate effective interest rates are not included under fees and commissions, since they are part of the effective interest rate.

### **Dividends**

Dividends are recognised in the profit and loss account for the year in which their distribution has been approved.

### **Relevant definitions for IAS/IFRS**

The main definitions introduced by international accounting principles IAS/IFRS are described below, other than those dealt with in previous sections.

### **Amortised cost**

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at the initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectability.

The effective interest method is a method of allocating the interest income or interest expense over the life of a financial asset or liability. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. The calculation includes all fees and basis 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.

Commissions forming an integral part of the effective interest rate include loan drawdown fees or underwriting fees relating to a financial asset not designated at fair value, e.g., fees received as compensation for the assessment of the issuer's or borrower's financial situation, for valuation and registration of security, and generally for the completion of the transaction (management fees).

Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

### **Impairment of financial assets**

At each balance sheet date an entity assesses whether there is any clear evidence that a financial asset or group of financial assets is impaired.

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

It may not be possible to identify a single, discrete event that caused the impairment. Rather the combined effect of several events may have caused the impairment.

Losses expected as a result of future events, regardless of their probability to occur, are not recognised.

## Part A - Accounting Policies

Clear evidence that a financial asset or group of assets is impaired includes observable data that comes to our attention about the following loss events:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting a concession to the borrower which the lender would not otherwise consider;
- it 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; however, the disappearance of an active market due to the fact that a company's financial instruments are no longer traded publicly is not - *per se* - 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.

Clear evidence of impairment for an investment in an equity instrument includes information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment may not be recovered. A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also clear evidence of impairment (see Section 2 - Available-for-sale Financial Assets).

If there is clear evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss is recognised in profit and loss item "130. Net losses/recoveries on impairment" and the asset's carrying value is reduced.

With respect to instruments classified as available-for-sale financial assets, this amount is equal to the balance of the negative Revaluation reserve (see Section 2 - Available-for-sale Financial Assets).

If the terms of a loan, receivable or held-to-maturity investment are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. If a loan, receivable or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

A reduction in the fair value of a financial asset below its cost or amortised cost is not necessarily an indication of impairment (e.g. reduction in the fair value of an investment in a debt instrument arising from an increase due only to the risk-free interest rate).

Clear evidence of impairment is initially assessed individually; however, if there is no clear evidence of individual impairment, the asset is included in a group of financial assets with similar credit risk characteristics and assessed collectively.

Formula-based approaches and statistical methods may be used to assess impairment losses on a group of financial assets. Models used incorporate the time value of money, and consider cash flows over the entire residual life of the asset (not just the following year) and do not originate to an impairment loss on initial recognition of a financial asset. They take into account losses already sustained but not manifest in the group of financial assets at the time of measurement, on the basis of past experience of losses on assets having a similar credit risk to the group of assets being measured.

The process of estimating impairment losses considers all the credit exposures, not only those of low credit quality, which reflect a significant impairment.



### Reversals of impairment losses

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can relate objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit worthiness), the previously recognised impairment loss is reversed and the amount of the reversal is recognised in profit and loss item "130. Net losses/recoveries on impairment" except in the case of AfS equity instruments (see Section 2 - Available-for-sale Financial Assets).

The reversal shall not result, at the date when the impairment is reversed, in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised.

## A.3 - Information on transfers between portfolios of financial assets

The amendments to IAS39 and IFRS7 "Reclassification of financial assets" approved by the IASB in 2008 allow the reclassification of certain financial assets, after their initial recognition, out of the HfT and AfS portfolios.

In particular, the following may be reclassified:

- those HfT or AfS financial assets that would have satisfied the definition specified by the international accounting standards for the loan portfolio (if such assets were not classified as HfT or AfS respectively on initial recognition) if the entity intends, and is able, to hold them for the foreseeable future or until maturity;
- "only in rare circumstances" those HfT financial assets which, at the time of their recording, did not satisfy the definition of loans.

The following table provides the book value and the fair value as at 31 December 2017 (broken down by type of underlying asset and portfolio) of assets which were reclassified in the second half of 2008 and in the first half of 2009. The income/expenses that would have been recognised if such reclassifications had not occurred, as well as those effectively recognised through profit or loss or at equity, are also provided.

These income/expenses before tax are broken down into two categories: those arising "from measurement" (including any write-downs) and "other" (including interest and gains/losses on the disposal of the transferred assets).

As a result the overall impact that would have been recognised in the income statement in 2017, if these assets had not been reclassified, would have been a gain of €223 thousand, while the impact actually recognised was a gain of €13 thousand.

### A.3.1 Reclassified financial assets: book value, fair value and effects on comprehensive income

(€ '000)

INSTRUMENTS TYPE	ACCOUNTING PORTFOLIO BEFORE RECLASSIFICATION	ACCOUNTING PORTFOLIO AFTER RECLASSIFICATION	BOOK VALUE AS AT 12.31.2017	FAIR VALUE AS AT 12.31.2017	INCOME/EXPENSES ABSENT RECLASSIFICATION (BEFORE TAX)		INCOME/EXPENSE RECOGNISED DURING THE PERIOD (BEFORE TAX)	
					FROM MEASUREMENT	OTHER	FROM MEASUREMENT	OTHER
Debt securities	Held for trading	Loans to Banks	-	-	-	223	-	13
Debt securities	Held for trading	Loans to Customers	-	-	-	-	-	-
Debt securities	Available for sale	Loans to Customers	-	-	-	-	-	-
<b>Total</b>			<b>-</b>	<b>-</b>	<b>-</b>	<b>223</b>	<b>-</b>	<b>13</b>

The income/expense of the assets transferred to loans to customers refer only to structured credit products (other than derivatives).

No further reclassifications were made during 2017, therefore table "A.3.2 Reclassified financial assets: effects on comprehensive Income before reclassification" and information concerning item "A.3.4 Effective interest rate and cash flows expected from reclassified assets" are not provided.

## Part A - Accounting Policies

### A.4 - Information on fair value

#### Qualitative information

This section presents a disclosure on fair value as required by IFRS13.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants in the principal market at the measurement date (i.e. an exit price).

The fair value of a financial liability with a demand feature (e.g. a demand deposit) can not be lower than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

For financial instruments listed in active markets, fair value is determined on the basis of official prices in the principal market to which the Company has access (Mark to Market).

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from a pricing service, dealer, broker, agency that determines prices or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If a published price quotation in an active market does not exist for a financial instrument in its entirety, but active markets exist for its component parts, fair value can be determined on the basis of the relevant market prices for the component parts.

If the observable prices in active market or other observable inputs, such as the quoted price of a similar instrument in an active market, the Company may use another valuation techniques, such as:

- a market approach (e.g. using quoted prices for similar assets/liabilities or equity instruments held by other parties as assets);
- cost approach (e.g. it reflects the amount that would be required currently to replace the service capacity of an asset, that is the current replacement cost);
- an income approach (e.g. a present value technique that takes into account the future cash flows that a market participant would expect to receive from holding the liability or equity instrument as an asset).

The Company uses valuation models (Mark to Model) in keeping with the methods generally accepted and used by the market. Valuation models include techniques based on the discounting of future cash flows and on volatility estimates, and they are subject to revision both during their development and periodically in order to ensure their consistency with the objectives of the valuation.

These methods use inputs based on prices set in recent transactions for the instrument being valued and/or prices/quotations for instruments having similar characteristics in terms of risk profile. Indeed, these prices/quotations are relevant for determining significant parameters in terms of credit, liquidity and price risk of the instrument being valued. Reference to these market parameters allows to limit the discretionary nature of the valuation, and ensures that the resulting fair value can be verified. If, for one or more risk factors, it is not possible to refer to market data, the valuation models employed use estimates based on historical data as inputs.

As a further guarantee of the objectivity of valuations derived from valuation models, the Company employs:

- Independent price verifications (IPVs);
- Fair value adjustments (FVAs).

Independent price verification requires that the prices are verified monthly by Risk Management units that are independent from the units that assume the risk exposure.

This verification calls for comparing and adjusting the price in line with valuations obtained from independent market participants.

For instruments not quoted in active markets, the above verification process uses prices contributed by info providers as a reference, and assigns a greater weighting to those prices that are considered representative of the instrument being valued. This valuation can include the execution of the transaction at the price observed, the number of contributors, the degree of similarity of the financial instruments, the consistency of prices from different sources, and the process followed by the info provider to obtain the information.

#### **A.4.1 Levels 2 and 3 of the fair value hierarchy: valuation techniques and inputs used**

Hereby we provide IFRS13 disclosure requirements about accounting portfolios measured at fair value on a recurring basis, not measured at fair value, or measured at fair value on a non-recurring basis.

##### ***Assets and Liabilities measured at fair value on a recurring basis***

###### *Fixed-Income Securities*

Fixed-Income Securities are priced in a two tier process depending on the liquidity in the respective market. Liquid instruments in active markets are marked to market and consequently positions in these instruments are disclosed in reference to Fair Value Hierarchy under Level 1<sup>9</sup>.

In order to assess it, within the global bond Independent Price Verification (IPV) process a daily Liquidity Indicator is defined taking into account: the number of executable bid/ask quotes, their relative sizes and spreads. Such indicator is tracked over a several business days time window in order to obtain a stable monthly indicator.

Instruments not traded in active markets are marked to model based on implied credit spread curves derived from the former Level 1 instruments. The model maximises the use of observable input and minimises the use of unobservable inputs. With this respect, depending on the proximity of the credit spread curve applied, the bonds are disclosed as Level 2 or Level 3 respectively; Level 3 is applied in case credit spread curves used are significantly unobservable. Under fair value accounting, fair value adjustments for liquidity and model deficiencies compensate for the lack of market observables for the Level 2 and Level 3 positions.

In the global bond IPV process market prices of Level 1 bonds and pricing models for illiquid bonds are regularly verified for accuracy.

###### *Structured Financial Products*

The Company determines the fair value of structured financial products not quoted on active markets using the appropriate derivative valuation methodology given the nature of the embedded structure (when this is not to be separated). Such instruments are classified as Level 2 or Level 3 depending on the observability of significant inputs to the model.

###### *Asset Backed Securities*

UniCredit's relies on internal policies relying on two pillars:

- extension and implementation of an Independent Price Verification (IPV) process suited to the changed market conditions for Structured Credit Bonds;
- integration of current Fair Value Adjustments Policy.

According to the IPV process the quality of a price is assessed based upon the availability of quotes of independent market players for identical assets.

The process relies first on consensus data provider as reliable collector of market quotes.

As a second step, prices are assessed by benchmarking each security to a pool of similar securities with available market quotes. An alternative approach consists in evaluating the instrument through the use of quantitative pricing models, which are applicable every time that information regarding market participants assumptions on model parameters are reasonably made available without excessive costs or efforts.

###### *Derivatives*

Fair value of derivatives not traded in an active market is determined using a mark-to-model valuation technique. In such cases, where active markets exist for its component parts, then fair value is determined on the basis of the relevant market prices for the component parts.

Valuation techniques that are based on significant inputs that are observable are referred to as Level 2 valuations, while those based on techniques that use significant unobservable inputs are referred to as Level 3 valuations.

###### *Equity Instruments*

Equity Instruments are assigned to Level 1 when a quoted price is available on a liquid market and to Level 3 when no quotations are available or quotations have been suspended indefinitely. These instruments are classified as Level 2 only when trading volume on the market where the instrument is quoted has decreased significantly.

For equity instruments measured at cost an impairment is given, if the carrying amount exceeds the recoverable amount significantly and/or over a prolonged period of time.

<sup>9</sup> As far as Italian Government bonds are concerned, it is worth stressing they are typically exchanged on the MTS market which is largely acknowledged as the main liquid platform for this kind of asset.

## Part A - Accounting Policies

### *Investment Funds*

The Company holds investments in certain investment funds that publish net asset value (NAV) per share, including mutual funds, private equity funds, hedge funds (including funds of funds) and real estate funds. The Company's investments include co-investments in funds that are managed by the Group and investments in funds that are managed by third parties and in particular:

- **Real Estate Funds**

Real Estate Funds are mapped to Level 1 when quoted prices are available on an active market; when this condition does not hold, Real Estate Funds are disclosed as Level 3 and they are evaluated through an adequate credit adjustment of the NAV based on the specific features of each fund.

- **Other Funds**

The Company holds investments also in mutual funds, hedge funds and private equity funds.

Funds are usually assigned to Level 1 when a quoted price is available on an active market.

Funds are disclosed as Level 2 or Level 3 depending on NAV availability, portfolio transparency and possible issues relating to position write-off.

When sufficient information for reliable fair value measurements is not available, funds (e.g. hedge funds and private equity) are valued at cost and classified as Available for Sale at Level 3.

With reference to funds valued at cost, an impairment is applied in case the carrying amount is significantly above the recoverable amount or above the carrying amount for a prolonged period of time.

### **Fair value Adjustment (FVA)**

Fair value adjustment is defined as the amount to be added either to the market observed mid-price or to the theoretical price generated by a valuation model with the aim of obtaining a fair value of the position. Therefore FVA are aimed at insuring that the fair value reflects the actual exit price of a certain position.

Below a list of adjustments:

- Credit/Debit valuation adjustment (CVA/DVA);
- Model Risk;
- Close-out Costs;
- Other Adjustments.

### *Credit/Debit valuation adjustment (CVA/DVA)*

Credit valuation adjustments (CVAs) and debit valuation adjustments (DVAs) are incorporated into derivative valuations to reflect the impact on fair value of counterparty credit risk and UniCredit own credit quality respectively.

UniCredit CVA/DVA methodology is based on the following inputs:

- EAD derived by simulation techniques. Simulated exposures also take into account Specific Wrong-Way Risk that arises from transactions where there is a correlation between counterparty credit risk and the underlying derivative risk factors;
- PD implied by current market default rates, obtained from Credit Default Swaps;
- LGD based on the estimated level of expected recovery should a counterparty default and implied by current market default rates, obtained from credit default swaps.

As of 31 December 2017, net CVA/DVA cumulative adjustment, relating to performing counterparts, amounts to €63 million negative; adjustment related to Non-Performing counterparts amounts to €13.5 million negative.

The part related to own credit spread evolution, which is filtered out from regulatory capital (accordingly to CRDIV), amounts to €15 million positive.

### *Funding Cost and Benefit Adjustment (FCA/FBA)*

Funding Valuation Adjustment (FundVA) is the sum of a Funding Cost Adjustment (FCA) and a Funding Benefit Adjustment (FBA) that indeed accounts for the expected future funding costs/benefits for derivatives that are not fully collateralised. Most material contributors are in-the-money trades with uncollateralised counterparties.

UniCredit FVA methodology is based on the following inputs:

- Positive and Negative exposure profiles derived leveraging on a risk-neutral spin-off of the Counterparty Credit Risk internal model;
- PD term structure implied by current market default rates obtained from credit default swaps;
- A funding spread curve that is representative of the average funding spread of peer financial groups.

Such adjustment was previously considered among the capital deduction within the AVA prudential requirements. As of 31 December 2017 the fair value adjustment component is reflected into P&L with a net cumulative adjustment equal to €19 million negative.

### *Model Risk*

Financial models are used for the valuation of the financial instruments if the direct market quotes are not readily available. In general the model risk is represented by the possibility that a financial instrument's evaluation is actually sensitive to the choice of model. It is possible to value the same financial instrument by using alternative models which could provide different results in term of pricing. The model risk adjustment refers to the risk that the actual fair value of the instrument differs from the value produced by the model.

### *Close-out Cost*

It measures the implicit costs of closing an (aggregated) trading position. The position could be closed by a long position (or purchase in the case of a short position), or by entering into a new transaction (or several transactions) that offsets (hedges) the open position. The close-out costs are typically derived from the bid/ask spreads observed on the market. It accounts for the fact that a position is valued at mid but can only be closed at bid or ask. This adjustment is not needed when the position is marked at bid or ask and already represents an exit price. In addition a close-out adjustment of the NAV is applied when there are some penalties relating to position write-off in an investment fund.

### *Other adjustments*

Other fair value adjustments, which are not included in the previous categories, could be taken into consideration to align the evaluation to the current exit price, also according to the level of liquidity of the market and valuation parameters, e.g. adjustment of equity prices whose quotation on the market are not representative of the effective exit price.

### **Assets and Liabilities not measured at fair value or measured at fair value on a non-recurring basis**

Financial instrument not carried at fair value, for example retail loans and deposit, and credit facilities extended to corporate clients are not managed on a fair value basis.

For these instruments fair value are calculated for disclosure purposes only and do not impact the balance sheet or the profit or loss. Additionally, since these instruments generally do not trade, there is significant management judgment required to determine their fair values as defined by IFRS13.

### *Cash and cash balances*

Cash and cash balances are not carried at fair value on the Consolidated Balance Sheets, but they are carried at amounts that approximate fair value, due to their short-term nature and generally negligible credit risk.

### *Held-to-maturity investments*

Considering that held-to-maturity investments are mainly composed by securities, fair value for this asset class is determined according to what explained in section "Assets and Liabilities measured at fair value on a recurring basis - Fixed Income Securities".

### *Loans and Receivables to banks and customers*

Fair value for performing Loans and Receivables to banks and customers, recorded at amortised cost, is determined using the discounted cash flow model adjusted for credit risk. Some portfolios are valued according to simplified approaches, which however take into account the financial features of the financial instruments.

### *Property, plant and equipment held for investment purposes*

The fair value of property, plant and equipment held for investment purposes is determined on the basis of a valuation by an independent appraiser who holds a recognised and relevant professional qualification which perform its valuation mainly on the basis of an indirect knowledge of the assets through the information made available by the owner and relating to the localisation, consistency, destination and in consideration of market analysis.

The attribution of fair value levels is based on the level of observability of the significant market parameters used by the valuation technique.

### *Debt securities in issue*

Fair value for debt securities in issue, recorded at amortised cost, is determined using the discounted cash flow model adjusted for UniCredit credit risk. The Credit Spread is determined using UCI's subordinated and non-subordinated risk curves.

### *Other liabilities*

Fair value for liabilities, recorded at amortised cost, is determined using the discounted cash flow model adjusted for UniCredit credit risk. The Credit Spread is determined using UCI's senior and subordinated risk curves.

## Part A - Accounting Policies

### **Description of the valuation techniques**

Specific valuation techniques are used to value positions for which a market price is not directly observable from market sources. The Company uses well known valuation techniques for determining fair values of financial and non-financial instruments that are not actively traded and quoted. The valuation techniques used for Level 2 and 3 assets and liabilities, are described as follows:

#### *Option Pricing Model*

Option model valuation techniques are generally used for instruments in which the holder has a contingent right or obligation based on the occurrence of a future event, such as the price of a referenced asset going above or below a predetermined strike price. Option models estimate the likelihood of the specified event occurring by incorporating assumptions such as volatility estimates, price of the underlying instrument and expected rate of return.

#### *Discounted cash flow*

Discounted cash flow valuation techniques generally consist of developing an estimate of future cash flows that are expected to occur over the life of an instrument. The model requires the estimation of the cash flow and the adoption of market's parameters for the discounting: discount rate or discount margin reflects the credit and/or funding spreads required by the market for instruments with similar risk and liquidity profiles to produce a "discounted value". The fair value of the contract is given by the sum of the present values of future cash flows.

#### *Hazard Rate Model*

The valuation of CDS instruments requires the knowledge of the entity's survival probability at future dates. The estimate of this probability curve uses the standard model for survival probabilities and requires as parameters the credit default swap market quotes on standard future dates in addition to the risk free curve and the expected recovery rate.

The hazard rate is part of the described process and it indicates the instantaneous probability of default at different future instants.

#### *Market Approach*

A valuation technique that uses prices generated by market transactions involving identical or comparable (i.e. similar) assets, liabilities or a group of assets and liabilities.

#### *Gordon Growth Model*

This is the model used to determine the intrinsic value of an equity investment, based on a series of future dividends which grow at a constant rate. Given a dividend to be paid in a specific year and the hypothesis that the dividend grows at a constant rate, the model computes the present value of future dividends.

#### *Dividend Discount Model*

This model is used to determine the value of an equity investment, based on the series of predicted future dividends. Given a dividend to be paid in a specific year and the hypothesis that the dividend grows at a constant rate, the model computes the fair value of an equity share as the sum of the present value of all future dividends.

#### *Adjusted NAV*

Net asset value is the total value of a fund's assets less liabilities. An increase in net asset value would result in an increase in a fair value measure. Usually for funds classified as Level 3, NAV represents a risk free valuation, therefore in this case the NAV is adjusted so as to consider the issuer's default risk.

### **Description of the inputs used to measure the fair value of items categorised in Level 2 and 3**

Hereby a description of the main significant inputs used to measure the fair value of items categorised in Level 2 and 3 of the fair value hierarchy.

#### *Volatility*

Volatility is a measure for variation of price of a financial instrument over time. In particular, volatility measures the speed and severity of market price changes for an instrument, parameter or market index given the particular instrument, parameter or index changes in value over time, expressed as a percentage of relative change in price. The higher the volatility of the underlying, the riskier the instrument. In general, long option positions benefit from increases in volatility, whereas short option positions will suffer losses.

There are different types of volatility: volatility of interest rate, inflation volatility, volatility of foreign exchange and volatility of equity stocks, equity or other indexes/prices.

### *Correlation*

Correlation is a measure of the relationship between the movements of two variables. When parameters are positively correlated, an increase in correlation results in a higher fair value measure. On the contrary, given a short correlation position, an increase in correlation, in isolation, would generally result in a decrease in a fair value measure. Therefore changes in correlation levels can have a major impact, favorable or unfavorable, on the fair value of an instrument, depending on the type of correlation.

Correlation is a pricing input for a derivative product where the payoff is driven by multiple underlying risks. The level of correlation used in the valuation of derivatives with multiple underlying risks depends on a number of factors including the nature of those risks.

### *Dividends*

The derivation of a forward price for an individual stock or index is important both for measuring fair value for forward or swap contracts and for measuring fair value using option pricing models. The relationship between the current stock price and the forward price is based on a combination of expected future dividend levels and payment timings and, to a lesser extent, the relevant funding rates applicable to the stock in question. The dividend yield and timing represents the most significant parameter in determining fair value for instruments that are sensitive to an equity forward price.

### *Interest rate curve*

The calculation of the interest rate curve is based on standard bootstrapping techniques relying on the set of quotes of appropriate financial instruments, for each currency, which turns interest rates in zero-coupon.

Less liquid currencies interest curve refer to the rates in currencies for which doesn't exist a market liquidity in terms of tightness, depth and resiliency. The illiquidity of these input data impacts directly the valuation of securities or derivatives expressed in illiquid currencies.

### *Inflation Swap rate*

The determination of forward levels for inflation indexes is based on swap quote over inflation indexes. Swap over inflation may present a low liquidity level whether there is no liquid market in terms of rigidity, deepness and resistance. The illiquidity of those inputs has an indirect impact on the valuation of a debt instrument linked to inflation (inflation-linked note) or in case of a derivative over inflation.

### *Credit spreads*

Different valuation models, especially for credit derivatives require an input for the credit spread which reflects the credit quality of the associated credit name. The credit spread of a particular security is quoted in relation to the yield on a benchmark security or reference rate, typically either U.S. Treasury or LIBOR/EURIBOR and is generally expressed in terms of basis points. The ranges for credit spreads cover a variety of underlings (index and single names), regions, sectors, maturities and credit qualities (high-yield and investment-grade). The broad range of this population gives rise to the width of the ranges of unobservable inputs.

### *Loss Given Default (LGD)/Recovery Rate*

LGD also known as loss severity (the inverse concept is the recovery rate) represents the percentage of contractual cash flows lost in the event of a default, expressed as the net amount of loss relating to the outstanding balance. An increase in the loss severity, in isolation, would result in a decrease in a fair value measure. Loss given default is facility-specific because such losses are generally understood to be influenced by key transaction characteristics such as the presence of collateral and the degree of subordination.

### *Price*

Where market prices are not observable, comparison via proxy is used to measure a fair value.

### *Prepayment Rate (PR)*

The PR is the estimated rate at which forecasted prepayments of principal of the related debt instrument are expected to occur. Voluntary unscheduled payments (prepayments) change the future cash flows for the investor and thereby change the fair value of the security. In general as prepayment speeds change, the weighted average life of the security changes, which impacts the valuation either positively or negatively, depending upon the nature of the security and the direction of the change in the weighted average life.

### *Probability of Default (PD)*

The probability of default is an estimate of the likelihood of not collecting contractual amounts. It provides an estimate of the likelihood that a client of a financial institution will be unable to meet its debt obligations over a particular time horizon. The PD of an obligor not only depends on the risk characteristics of that particular obligor but also the economic environment and the degree to which it affects the obligor.

### *Early conversion*

The early conversion is the estimate of the probability that the liability would be converted into equity earlier than the terms stated.

## Part A - Accounting Policies

### EBITDA

EBITDA is an indicator of the current operating profitability of the business, that is the income generated by the use of the company's assets and the commercialisation of the products manufactured.

### Ke

The Ke (cost of capital) represents the minimum rate that the company has to offer to its shareholders as remuneration for the funds received.

### Growth rate

It is the constant growth rate used for the future dividends estimate.

### Quantitative information on significant unobservable inputs used in the fair value measurement: accounting portfolios measured at fair value categorised as Level 3

The following table shows, for each product category, the amount of Assets and Liabilities measured at fair value and the range of variation of unobservable parameters, across the whole portfolio, as monitored by Risk Management functions.

(€ million)

PRODUCT CATEGORIES			FAIR VALUE ASSETS	FAIR VALUE LIABILITIES	VALUATION TECHNIQUES	UNOBSERVABLE PARAMETERS	RANGE					
Derivatives	Financial	Equity & Commodities	494.32	366.13	Discounted Cash Flows	Swap Rate	-40 bps	1000 bps				
						Option Pricing Model	Volatility	5%	80%			
						Correlation	-95%	95%				
		Foreign Exchange	159.91	163.30	Option Pricing Model	Volatility	1%	40%				
					Discounted Cash Flows	Interest rate	-200%	30%				
		Interest Rate	60.56	0.73	Discounted Cash Flows	Swap Rate	-40 bps	1000 bps				
						Inflation Swap Rate	0bps	230bps				
						Option Pricing Model	Inflation Volatility	1%	10%			
						Interest Rate Volatility	1%	100%				
						Correlation	0%	100%				
Debt Securities and Loans	Corporate/ Government/Other		26.98	0.00	Market Approach	Price (% of used value)	0%	193%				
											Credit Spread	13bps
		Mortgage & Asset Backed Securities			Discounted Cash Flows	LGD	20%	80%				
						Default Rate	0%	8.0%				
						Prepayment Rate	1%	30%				
Equity Securities	Unlisted Equity & Holdings		552.08	0.00	Market Approach	Price (% of used value)	0%	100%				
											Ke	8.0%
						Gordon Growth Model	Growth Rate	0.5%	4.0%			
Units in Investment Funds	Real Estate & Other Funds		665.29	0.00	Adjusted Nav	PD	1%	30%				
											LGD	35%



#### A.4.2 Valuations processes and sensitivities

The Company verifies that the value attributed to each position reflects the current fair value in an appropriate way. Assets and liabilities subject to fair value measurements are determined using different techniques, among which (but not only) models such as *discounted cash flow* and internal models. On the basis of the observability of the input used, all the measurements are classified as Level 1, Level 2 or Level 3 of the fair value hierarchy.

When a financial instrument, measured at fair value, is valued through the use of one or more significant inputs not directly observable on the market, a further procedure for the price verification is implemented. These procedures include the revision of relevant historical data, the analysis of profits and losses, the individual valuation of each component for structural products and *benchmarking*. This approach uses subjective opinions and judgments based on experience and, therefore, it could require valuation adjustments which take into account the bid/ask spread, liquidity and counterparty risk, in addition to the valuation model type adopted.

According to Group Market Risk Governance guidelines, in order to ensure the right separateness of the functions in charge of the model development and those in charge of the validation processes, all valuation models developed by Group companies' front offices are independently tested centrally and validated by the Group Internal Validation functions. The aim of this independent control structure is evaluating the model risk from a theoretical solidity, calibration techniques eventually applied and appropriateness of the model for a specific product in a defined market point of views.

In addition to the daily mark to market or mark to model valuation, the Independent Price Verification (IPV) is applied by Market Risk function with the aim of guaranteeing a fair value provided by an independent structure for all liquid and illiquid instruments.

#### **Fair value sensitivity to variations in unobservable inputs used in the fair value computation for instruments categorised as Level 3**

The direction of sensitivity for instruments categorised at level 3 of fair value hierarchy to variations in significant unobservable inputs is supplied in the following table. For fair value computations where significant unobservable input are employed (Level 3), the sensitivity analysis is performed using a range of reasonable alternatives for the unobservable parameters.

The Company takes into account that the impact of unobservable inputs in the fair value computation of level 3 financial instruments, depends on the correlation among different inputs used in the valuation technique. In addition, the effect of unobservable input variation has an impact on the amount and the direction of fair value measurement, also according to the instrument nature and sign.

(€ million)

PRODUCT CATEGORIES		FAIR VALUE MOVEMENTS GIVEN REASONABLE POSSIBLE ALTERNATIVES	
<b>Derivatives</b>	Financial	Equities & Commodities	+/- 10.13
		Foreign Exchange	+/- 9.03
		Interest Rate	+/- 4.12
	Credit		+/- -
<b>Debt Securities and Loans</b>		Corporate/Government/Other	+/- 0.03
		Mortgage & Asset Backed Securities	+/- 3.07
<b>Equity Securities</b>		Unlisted Equity & Holdings	+/- 16.30
<b>Units in investment funds</b>		Real Estate & Other Funds	+/- 11.14

Within the unlisted Level 3 Units in Investment Funds, measured using a model, are classified the shares in Atlante and Italian Recovery Fund, former Atlante II (€194.5 million as at 31 December 2017) and, within Equity Securities, the investments in the Voluntary Scheme (as at 31 December 2017 equal to €4.4 million).

The quantitative disclosure presented in this section include the effects of changes in the unobservable parameters in the valuation of Atlante Fund. For further information, please refer to see Part B - Section 4 - Available for sale.

## Part A - Accounting Policies

### A.4.3 Fair value hierarchy

IFRS13 establishes a fair value hierarchy according to the observability of the input used in the valuation techniques adopted for valuations.

The fair value hierarchy level associated to assets and liabilities is set as the minimum level among all significant valuation inputs used.

A valuation input is not considered significant for the fair value of an instrument if the remaining inputs are able to explain the major part of the fair value variance itself over a period of three months.

In some specific cases, the significance limit is assessed in relation to the fair value of the instrument at the measurement date.

In particular, three levels are considered:

- level 1: fair value for instruments classified within this level is determined according to the quoted prices on active markets;
- level 2: fair value for instruments classified within this level is determined according to the valuation models which use observable inputs on active markets;
- level 3: fair value for instruments classified within this level is determined according to the valuation models which prevalently use significant unobservable input on active markets.

Financial instruments are classified to a certain fair value level according to the observability of the input used for the valuation.

**Level 1 (quoted prices in active markets):** quoted prices (unadjusted) in active markets are available for identical assets or liabilities that the entity has the ability to access at the measurement date. An active market is a market in which orderly transactions for the asset or liability take place with sufficient frequency and volume for pricing information to be provided on an on-going basis (e.g. MTS market about prices for most of the government bonds therein traded).

**Level 2 (observable inputs):** inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Inputs are observable if they are developed on the basis of publicly available information about actual events or transactions and reflect the assumptions that market participants would use when pricing the asset or liability.

**Level 3 (unobservable inputs):** inputs other than the ones included in level 1 and level 2, not directly observable on the market for the evaluation of asset and liability, or used for the definition of significant adjustments to fair value. Unobservable inputs shall reflect the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk.

When fair value is measured directly taking into consideration an observable price and quoted on an active market, the hierarchy attribution process will assign Level 1. When fair value has to be measured either via Comparable approach or via Mark-to-Model approach, the hierarchy attribution process will assign Level 2 or Level 3, depending on the observability of all the significant input parameters.

Within the choice among various valuation techniques the Group employs the one which maximises the use of observable inputs.

#### **Transfers between fair value hierarchy levels**

The main drivers to transfers in and out the FV levels (both between L1 and L2 and in/out L3) include changes in market conditions (among which liquidity parameter) and enhancements to valuation techniques and weights for unobservable inputs used for the valuation itself.

Quantitative and qualitative details about transfers between FV levels occurred in the period is presented in part A.4.5 - Fair Value Hierarchy.

### A.4.4 Other information

The Company uses the IFRS13 exception for fair value measurements on a net basis with reference to financial assets and liabilities with offsetting positions of market risk or counterparty credit risk.

## Quantitative information

### A.4.5 Fair value hierarchy

The following tables presents the portfolios breakdown in terms of (i) financial assets and liabilities valued at fair value as well as (ii) assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis, according to the above mentioned levels.

#### A.4.5.1 Assets and liabilities measured at fair value on a recurring basis: breakdown by fair value levels

(€ '000)

ASSETS/LIABILITIES MEASURED AT FAIR VALUE	AMOUNTS AS AT 12.31.2017			AMOUNTS AS AT 12.31.2016		
	LEVEL 1	LEVEL 2	LEVEL 3	LEVEL 1	LEVEL 2	LEVEL 3
1. Financial assets held for trading	8,165,654	4,983,336	714,789	6,165,987	7,104,306	756,100
2. Financial assets at fair value through P&L	509,418	58,783	83,719	1,064	145,193	13,024
3. Available for sale financial assets	55,143,740	2,914,862	1,389,652	60,987,481	2,006,606	1,139,229
4. Hedging derivative assets	16,896	4,383,043	-	3,057	6,092,834	-
5. Property, plant and equipment	-	-	-	-	-	-
6. Intangible assets	-	-	-	-	-	-
<b>Total</b>	<b>63,835,708</b>	<b>12,340,024</b>	<b>2,188,160</b>	<b>67,157,589</b>	<b>15,348,939</b>	<b>1,908,353</b>
1. Financial liabilities held for Trading	7,240,313	5,297,269	530,299	6,526,784	7,524,210	506,042
2. Financial liabilities at fair value through P&L	-	2,737,625	-	-	2,102,895	-
3. Hedging derivative liabilities	29,210	4,529,110	-	11,782	6,115,078	15
<b>Total</b>	<b>7,269,523</b>	<b>12,564,004</b>	<b>530,299</b>	<b>6,538,566</b>	<b>15,742,183</b>	<b>506,057</b>

Transfers between level of fair value occurring between 31 December 2016 and 31 December 2017 mainly reflect the evolution of the market of reference in the period and the enhancement of processes for fair value level.

The sub-item "3. Available-for-sale financial assets" at level 3 as of 31 December 2017 does not include €270 million measured at cost (€392 million as of 31 December 2016), decrease mainly due to the sales of the investments in F2i and FII Funds (with a carrying value as of 31 December 2016 equal to €104.7 million), and it does include the investments in Atlante and Italian Recovery Fund - former Atlante II - (carrying value €194.5 million) and in Schema Volontario (carrying value €4.4 million).

For further information See part B - Section 4 - Available for sale financial assets.

Other than the transfers relating to the financial assets and liabilities measured at level 3, detailed in the sections below, it is noted that, during 2017, the only significant transfers between level 1 and level 2 is related to financial activities available for sale transferred from level 1 to level 2 for an amount of €6 million, and from level 2 to level 1 for an amount of €101 million.

## Part A - Accounting Policies

## A.4.5.2 Annual changes in assets measured at fair value on a recurring basis (level 3)

(€ '000)

	CHANGES IN 2017					
	HELD FOR TRADING FINANCIAL ASSETS	AT FAIR VALUE THROUGH P&L FINANCIAL ASSETS	AVAILABLE FOR SALE FINANCIAL ASSETS	HEDGING DERIVATIVES	PROPERTY, PLANT AND EQUIPMENT	INTANGIBLE ASSETS
<b>1. Opening balances</b>	<b>756,099</b>	<b>13,024</b>	<b>1,139,229</b>	-	-	-
<b>2. Increases</b>	<b>727,351</b>	<b>74,313</b>	<b>592,965</b>	-	-	-
2.1 Purchases	317,544	69,373	560,732	-	-	-
2.2 Profits recognised in:	409,804	1,330	16,616	-	-	-
2.2.1 Income Statement	409,804	1,330	86	-	-	-
<i>- of which Unrealised gains</i>	<i>392,785</i>	<i>1,330</i>	-	-	-	-
2.2.2 Equity	X	X	16,530	-	-	-
2.3 Transfers from other levels	3	-	3,472	-	-	-
2.4 Other increases	-	3,610	12,145	-	-	-
<b>3. Decreases</b>	<b>768,661</b>	<b>3,618</b>	<b>342,542</b>	-	-	-
3.1 Sales	130,030	245	8,629	-	-	-
3.2 Redemptions	-	-	31,623	-	-	-
3.3 Losses recognised in:	638,631	803	248,989	-	-	-
3.3.1 Income Statement	638,631	803	211,766	-	-	-
<i>- of which Unrealised losses</i>	<i>406,165</i>	<i>803</i>	<i>151,926</i>	-	-	-
3.3.2 Equity	X	X	37,223	-	-	-
3.4 Transfers to other levels	-	-	-	-	-	-
3.5 Other decreases	-	2,570	53,301	-	-	-
<b>4. Closing balances</b>	<b>714,789</b>	<b>83,719</b>	<b>1,389,652</b>	-	-	-

The sub-category "2. Increases" and "3 Decreases" in financial assets are included in the Profit and Loss in the following items:

- Item 80: Gains (Losses) on financial assets and liabilities held for trading;
- Item 90: Fair value adjustments in hedge accounting;
- Item 110: Gains (Losses) on financial assets/liabilities at fair value through profit or loss.

The sub-category "2.2 Profits" and the sub-category "3.3 Losses" on fair value on financial assets and liabilities available for sale are accounted in item "130. Revaluation reserves" of shareholder's equity - with the exception of impairment and gains and losses on exchange rates on monetary assets (debt securities) which are reported respectively in item "130. Net losses/recoveries on impairment: b) available-for-sale financial assets" and item "80. Gains and losses on financial assets and liabilities held for trading" until the financial asset is not sold, instant in which cumulative gains and losses are reported at profit & loss at item "100. Gains (Losses) on financial assets and liabilities of: b) available-for-sale financial investments".

Transfers between level of fair value occurring between 31 December 2016 and 31 December 2017 mainly reflect the evolution of the market of reference in the period and the enhancement of processes for fair value level attribution.

#### A.4.5.3 Annual changes in liabilities at fair value on a recurring basis (level 3)

(€ '000)

	CHANGES IN 2017		
	FINANCIAL LIABILITIES HELD FOR TRADING	FINANCIAL LIABILITIES AT FAIR VALUE THROUGH P&L	HEDGING DERIVATIVES
<b>1. Opening balances</b>	<b>506,043</b>	<b>-</b>	<b>14</b>
<b>2. Increases</b>	<b>625,068</b>	<b>-</b>	<b>14</b>
2.1 Issuance	207,315	-	-
2.2 Losses recognised in:	417,753	-	14
2.2.1 Income Statement	417,753	-	14
- of which Unrealised losses	383,325	-	-
2.2.2 Equity	X	X	-
2.3 Transfers from other levels	-	-	-
2.4 Other increases	-	-	-
<b>3. Decreases</b>	<b>600,812</b>	<b>-</b>	<b>28</b>
3.1 Redemptions	234,193	-	14
3.2 Purchases	-	-	-
3.3 Profits recognised in:	366,619	-	14
3.3.1 Income Statement	366,619	-	14
- of which Unrealised gains	356,788	-	14
3.3.2 Equity	X	X	-
3.4 Transfers to other levels	-	-	-
3.5 Other decreases	-	-	-
<b>4. Closing balances</b>	<b>530,299</b>	<b>-</b>	<b>-</b>

The sub-category “2. Increases” and “3. Decreases” in financial liabilities are included in the Profit and Loss in the following items:

- Item 80: Gains (Losses) on financial assets and liabilities held for trading;
- Item 90: Fair value adjustments in hedge accounting;
- Item 110: Gains (Losses) on financial assets/liabilities at fair value through profit or loss.

Transfers between level of fair value occurring between 31 December 2016 and 31 December 2017 mainly reflect the evolution of market of reference in the period and the enhancement of processes for fair value level attribution.

## Part A - Accounting Policies

**A.4.5.4 Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis: breakdown by fair value level**

(€ '000)

ASSETS/LIABILITIES NOT MEASURED AT FAIR VALUE OR MEASURED AT FAIR VALUE ON A NON-RECURRING BASIS	AMOUNTS AS AT 12.31.2017				AMOUNTS AS AT 12.31.2016			
	BOOK VALUE	LEVEL 1	FAIR VALUE		BOOK VALUE	LEVEL 1	FAIR VALUE	
			LEVEL 2	LEVEL 3			LEVEL 2	LEVEL 3
1. Held-to-maturity investments	762,431	22,403	759,067	-	755,171	23,653	748,853	-
2. Loans and receivables with banks	27,566,761	29,292	12,005,277	15,780,419	22,349,104	31,946	11,396,824	11,505,985
3. Loans and receivables with customers	208,965,455	-	92,410,539	115,728,812	213,236,760	-	117,297,806	99,974,552
4. Property, plant and equipment held for investment	540,914	-	-	704,974	636,652	-	-	859,748
5. Non-current assets and disposal groups classified as held for sale	150,031	-	79,306	-	7,438,961	-	2,951,098	-
<b>Total</b>	<b>237,985,592</b>	<b>51,695</b>	<b>105,254,189</b>	<b>132,214,205</b>	<b>244,416,648</b>	<b>55,599</b>	<b>132,394,581</b>	<b>112,340,285</b>
1. Deposits from banks	56,807,016	-	13,896,046	43,033,573	44,380,507	-	38,128,886	6,037,515
2. Deposits from customers	197,138,762	-	37,732,119	159,325,053	196,520,934	-	43,710,307	152,152,318
3. Debt securities in issue	64,945,632	30,184,820	31,599,312	6,316,916	83,126,805	36,926,497	43,868,007	4,252,712
4. Liabilities included in disposal groups classified as held for sale	-	-	-	-	2,544	-	-	-
<b>Total</b>	<b>318,891,410</b>	<b>30,184,820</b>	<b>83,227,477</b>	<b>208,675,542</b>	<b>324,030,790</b>	<b>36,926,497</b>	<b>125,707,200</b>	<b>162,442,545</b>

The changes occurred between 31 December 2016 and 31 December 2017 in the ratio between fair value and book value for loans and receivables to banks and customers reflect the enhancement of the methodology and the parameters adopted for the fair value calculation for disclosure and the evolution in the benchmark interest rate, in the risk premium and in the *probability of default* depending on or deriving from markets trend.

These events together with the evolution of the approach to identify the significance of non-observable inputs have been reflected in the fair value hierarchy level distribution.

Sub item "5. Non-current assets and disposal groups classified as held for sale" contains also €71 million measured at cost (see Part B - Section 14, table 14.1).

## A.5 - Information on “day one profit/loss”

The value at which financial instruments are recognised is equal to their fair value on the same date.

The fair value of financial instruments, different from those designated at fair value through profit or loss, at their recognition date is usually assumed to be equal to the amount collected or paid.

For financial instruments held for trading (see Sections 1 and 14 of part A.2 above) and instruments designated at fair value (see Sections 5 and 15 of part A.2 above), any difference from the amount collected or paid is posted under the appropriate items of the income statement.

The use of conservative valuation models, the processes described above for revising the models used and related parameters and value adjustments to reflect model risk ensure that the amount recognised in the income statement is not derived from the use of valuation parameters that cannot be observed.

More specifically, the calculation of fair value adjustments to reflect model risk ensures that the fair value portion of these instruments relating to the use of subjective parameters is not recognised in the profit and loss account, but changes the balance sheet value of these instruments. Recognition of this portion in the profit and loss account is then made only when objective parameters are applied and therefore the adjustments are derecognised.

At 31 December 2017, as well as at 31 December 2016, there were no value adjustments to reflect model risk (amount not recognised though profit or loss).





## Part B - Balance Sheet

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## Part B - Balance Sheet - Assets

## Assets

## Section 1 - Cash and cash balances - Item 10

## 1.1 Cash and cash balances: breakdown

(€ '000)

	AMOUNTS AS AT	
	12.31.2017	12.31.2016
a) Cash	1,483,113	1,384,137
b) Demand deposits with Central banks	24,333,595	467,695
<b>Total</b>	<b>25,816,708</b>	<b>1,851,832</b>

The change in the item "Demand deposits with Central Banks" is mainly attributable to the increase in cash invested with Banca d'Italia.

## Section 2 - Financial assets held for trading - Item 20

## 2.1 Financial assets held for trading: product breakdown

(€ '000)

ITEMS/VALUES	AMOUNTS AS AT 12.31.2017			AMOUNTS AS AT 12.31.2016		
	LEVEL 1	LEVEL 2	LEVEL 3	LEVEL 1	LEVEL 2	LEVEL 3
<b>A) Financial assets (non-derivatives)</b>						
<b>1. Debt securities</b>	<b>8,127,515</b>	<b>67</b>	<b>3</b>	<b>6,164,777</b>	<b>104</b>	<b>-</b>
1.1 Structured securities	-	-	3	-	-	-
1.2 Other debt securities	8,127,515	67	-	6,164,777	104	-
<b>2. Equity instruments</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>39</b>	<b>-</b>	<b>-</b>
<b>3. Units in investment funds</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>4. Loans</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
4.1 Reverse Repos	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
<b>Total (A)</b>	<b>8,127,515</b>	<b>67</b>	<b>3</b>	<b>6,164,816</b>	<b>104</b>	<b>-</b>
<b>B) Derivative instruments</b>						
<b>1. Financial derivatives</b>	<b>38,139</b>	<b>4,983,269</b>	<b>714,786</b>	<b>1,171</b>	<b>7,104,202</b>	<b>756,100</b>
1.1 Trading	38,139	4,841,652	446,345	1,171	6,871,776	541,785
1.2 Related to fair value option	-	9,682	208,876	-	-	152,952
1.3 Other	-	131,935	59,565	-	232,426	61,363
<b>2. Credit derivatives</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
2.1 Trading	-	-	-	-	-	-
2.2 Related to fair value option	-	-	-	-	-	-
2.3 Other	-	-	-	-	-	-
<b>Total (B)</b>	<b>38,139</b>	<b>4,983,269</b>	<b>714,786</b>	<b>1,171</b>	<b>7,104,202</b>	<b>756,100</b>
<b>Total (A+B)</b>	<b>8,165,654</b>	<b>4,983,336</b>	<b>714,789</b>	<b>6,165,987</b>	<b>7,104,306</b>	<b>756,100</b>
<b>Total Level 1, Level 2 and Level 3</b>			<b>13,863,779</b>			<b>14,026,393</b>

The sub-item "Financial assets (non-derivatives)" consists mainly of Italian government bonds from Market Making activity.

The sub-item "Derivative instruments-Financial derivatives-Other" comprises: (i) derivatives embedded in structured financial instruments, where the host has been classified in a category different from held-for-trading or fair value option and (ii) derivatives that, for economic purposes, relate to banking book entries.

## 2.2 Financial assets held for trading: breakdown by issuer/borrower

(€ '000)

ITEMS/VALUES	AMOUNTS AS AT	
	12.31.2017	12.31.2016
<b>A. Financial assets (non-derivatives)</b>		
<b>1. Debt securities</b>	<b>8,127,585</b>	<b>6,164,881</b>
a) Governments and Central Banks	8,127,568	6,164,863
b) Other public-sector entities	-	-
c) Banks	12	12
d) Other issuers	5	6
<b>2. Equity instruments</b>	<b>-</b>	<b>39</b>
a) Banks	-	-
b) Other issuers	-	39
- insurance companies	-	-
- financial companies	-	-
- non-financial companies	-	39
- other	-	-
<b>3. Units in investment funds</b>	<b>-</b>	<b>-</b>
<b>4. Loans</b>	<b>-</b>	<b>-</b>
a) Governments and Central Banks	-	-
b) Other public-sector entities	-	-
c) Banks	-	-
d) Other issuers	-	-
<b>Total A</b>	<b>8,127,585</b>	<b>6,164,920</b>
<b>B. Derivative instruments</b>		
a) Banks	2,711,969	4,126,777
b) Customers	3,024,225	3,734,696
<b>Total B</b>	<b>5,736,194</b>	<b>7,861,473</b>
<b>Total (A+B)</b>	<b>13,863,779</b>	<b>14,026,393</b>

## Section 3 - Financial assets at fair value through profit or loss - Item 30

### 3.1 Financial assets at fair value through profit or loss: breakdown by product

(€ '000)

ITEMS/VALUES	AMOUNTS AS AT 12.31.2017			AMOUNTS AS AT 12.31.2016		
	LEVEL 1	LEVEL 2	LEVEL 3	LEVEL 1	LEVEL 2	LEVEL 3
<b>1. Debt securities</b>	-	58,783	26,982	1,036	94	13,022
1.1 Structured securities	-	-	-	-	7	-
1.2 Other debt securities	-	58,783	26,982	1,036	87	13,022
<b>2. Equity instruments</b>	509,381	-	-	-	-	2
<b>3. Units in investment funds</b>	37	-	56,737	28	145,099	-
<b>4. Loans</b>	-	-	-	-	-	-
4.1 Structured	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
<b>Total</b>	<b>509,418</b>	<b>58,783</b>	<b>83,719</b>	<b>1,064</b>	<b>145,193</b>	<b>13,024</b>
<b>Total Level 1, Level 2 and Level 3</b>			<b>651,920</b>			<b>159,281</b>

The sub-item "Debt securities" includes investments in FINO Project's Junior Notes with a value of €59 million as at 31 December 2017 (gross of volumes subject to binding sale agreements with deferred settlement in January 2018). For additional information please refer to explanatory note presented in Part E, at the bottom of Table "A.1.2 Breakdown of credit exposures by portfolio and credit quality (gross and net amounts)".

The sub-item "Equity instruments" includes residual shares of Bank Pekao S.A. with a value of €509 million as at 31 December 2017, reclassified into such category after the sale of 32.8% stake to PZU and PFR (with subsequent loss of control) occurred in first half of 2017, in the same way of the "mandatorily settled secured equity-linked certificates" included into financial liabilities at fair value through profit and loss.

Sub-item "1.2 Other debt securities" includes securities relating to securitisation transactions shown in the following table:

## Part B - Balance Sheet - Assets

## Exposures to securities related to Securitisation transactions

(€ '000)

TRANCHING	AMOUNTS AS AT 12.31.2017
Senior	-
Mezzanine	-
Junior	58,699
<b>Total</b>	<b>58,699</b>

## 3.2 Financial assets at fair value through profit or loss: breakdown by issuer/borrower

(€ '000)

ITEMS/VALUES	AMOUNTS AS AT	
	12.31.2017	12.31.2016
<b>1. Debt securities</b>	<b>85,765</b>	<b>14,152</b>
a) Governments and central banks	-	1,036
b) Other public-sector entities	-	-
c) Banks	84	94
d) Other issuers	85,681	13,022
<b>2. Equity instruments</b>	<b>509,381</b>	<b>2</b>
a) Banks	509,381	2
b) Other issuers:	-	-
- insurance companies	-	-
- financial companies	-	-
- non-financial companies	-	-
- other	-	-
<b>3. Units in investment funds</b>	<b>56,774</b>	<b>145,127</b>
<b>4. Loans</b>	<b>-</b>	<b>-</b>
a) Governments and central banks	-	-
b) Other public-sector entities	-	-
c) Banks	-	-
d) Other entities	-	-
<b>Total</b>	<b>651,920</b>	<b>159,281</b>

## Section 4 - Available-for-sale financial assets - Item 40

## 4.1 Available for sale financial assets:breakdown by product

(€ '000)

ITEMS/VALUES	AMOUNTS AS AT 12.31.2017			AMOUNTS AS AT 12.31.2016		
	LEVEL 1	LEVEL 2	LEVEL 3	LEVEL 1	LEVEL 2	LEVEL 3
<b>1. Debt securities</b>	<b>55,045,801</b>	<b>1,784,209</b>	<b>229,021</b>	<b>60,822,148</b>	<b>699,624</b>	<b>19,348</b>
1.1 Structured securities	74,029	4,752	301	-	-	-
1.2 Other	54,971,772	1,779,457	228,720	60,822,148	699,624	19,348
<b>2. Equity instruments</b>	<b>97,939</b>	<b>1,099,213</b>	<b>709,159</b>	<b>159,423</b>	<b>1,280,259</b>	<b>771,042</b>
2.1 Measured at fair value	97,939	1,099,213	552,077	159,423	1,280,259	600,962
2.2 Carried at cost	-	-	157,082	-	-	170,080
<b>3. Units in investment funds</b>	<b>-</b>	<b>31,440</b>	<b>721,387</b>	<b>5,911</b>	<b>26,723</b>	<b>740,506</b>
<b>4. Loans</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>55,143,740</b>	<b>2,914,862</b>	<b>1,659,567</b>	<b>60,987,482</b>	<b>2,006,606</b>	<b>1,530,896</b>
<b>Total Level 1, Level 2 and Level 3</b>			<b>59,718,169</b>			<b>64,524,984</b>

The change into Available-for-Sale financial instrument is attributable to the evolution in investments in debt securities, mainly relating to the changes in value and volumes of investments in sovereign instruments primarily Italian.

Sub-item "1.1. Debt Securities" includes investments in FINO Project's mezzanine and senior notes (gross of volumes subject to binding sale agreements with deferred settlement into January 2018 coherently presented among level 2 instruments) with a value of €703 million as at 31 December 2017. For additional information please refer to explanatory note presented in Part E, at the bottom of Table "A.1.2 Breakdown of credit exposures by portfolio and credit quality (gross and net amounts)".

Sub-item "2.1. Equity securities at fair value" includes (i) Banca d'Italia stake (presented among level 2 instruments), with a value of €1,062 million and (ii) ABH Holding SA investments (presented among level 3 instruments and being hedged agst Fx Risk) acquired in contemplation of the sale of

PJSC Ukrsofbank to Alfa Group, with a value of €348 million as at 31 December 2017 and (iii) investment in the "Schema Volontario" (qualified as level 3 instruments) with a value of €4.4 million after cumulated impairment of €120.7 million, of which €76.6 million into year 2017.

Sub-item "3. Units in investments fund" includes Atlante stake (presented among level 3 instruments) with a value of €95 million, after cumulated impairment of €684 million, of which €137 million into year 2017 and Italian Recovery Fund (former Atlante II) stake with a value of €99 million (presented among level 3 instruments).

Fair value measurements have been classified according to a hierarchy of levels reflecting the significance of the valuations input.

For further information see Part A - Accounting Policies - A.4 Information on fair value.

### **Information about the shareholding in Banca d'Italia**

Since the third quarter of 2015, UniCredit started the disposal of its stake in Banca d'Italia, for an amount corresponding to its carrying value. UniCredit completed, till now, the disposal of ca. 8% of Banca d'Italia share capital, reducing its shareholding to 14.2% (book value equal to ca. €1,062 million).

The shares are the result of a capital increase carried out in 2013 when, in order to facilitate the redistribution of shares, a limit of 3% was introduced in respect of holding shares, establishing that after an adjustment period of no more than 36 months starting from December 2013, no economic rights would be applicable to shares exceeding the above limit. In accordance with the Law, the shareholdings can belong to: banks and insurance and re-insurance companies that have their registered and head offices in Italy; foundations pursuant to Art.27 of Italian Legislative Decree No.153 of 17 May 1999; pension and insurance entities and institutions with head office in Italy established in terms of Art.4, paragraph 1 of Legislative Decree No.252 of 5 December 2005.

During last years shareholders with excess shares began selling, finalising sales for around 25% of the total capital. The book value at 31 December 2017, in line with the figure at the end of the last period and the outcome of the measurement conducted by the committee of high-level experts on behalf of Banca d'Italia at the time of the capital increase, is supported by the price for the transactions that took place since 2015. The relevant measurement was therefore confirmed as level 2 in the fair value classification.

With regard to regulatory treatment at 31 December 2017 (effects on regulatory capital and capital ratios):

- the value of the investment measured at fair value in the balance sheet is given a weighting of 100% (in accordance with Article 133 "Exposures in Equity Instruments" of the CRR);
- the revaluation recognised through profit or loss at 31 December 2013 is not subject to any filters.

### **Information about the units of Atlante Fund and Italian Recovery Fund (former Atlante II)**

Atlante is a closed-end alternative investment fund (FIA) ruled by Italian law (the "Atlante fund"), reserved to professional investors, and managed by Quaestio Capital Management SGR S.p.A. Unipersonale (the "Quaestio SGR"). The size of the fund was equal to €4,249 million, of which UniCredit S.p.A. invested for about 19.9%.

The investment policy of Atlante foresees that the fund may be invested (i) in banks with regulatory capital ratios lower than the minimum level set down in the SREP process and, thus, realise, upon request of the supervisory authority, actions of capital strengthening through capital increases and (ii) in Non-Performing Loans (NPLs) of a plurality of Italian banks.

On May and June 2016 Quaestio SGR has underwritten (in the name, on behalf and in the interest of Atlante) No.15 billion of newly issued ordinary shares of Banca Popolare di Vicenza S.p.A (BPVi) for a price of €0.10 per share and a total consideration of €1.5 billion and No.9,885,823,295 of newly issued ordinary shares of Veneto Banca S.p.A (VB) for a price of €0.10 per share and a total consideration of €988,582,329.50 obtaining an investment representing 99.33% and 97.64% of share capital of the two banks respectively.

On August 2016, it was launched the Atlante II fund (the "Atlante II fund"), ridenominated Italian Recovery Fund since 27 October 2017, a closed-end investment alternative fund reserved to professional investors, also managed by Quaestio SGR, which, unlike the Atlante fund, may invest only in NPL and instruments linked to NPL transactions (such as warrants) in order to reduce the risk in line with the parameters used by the largest world institutional investors.

On 21 December 2016, Quaestio SGR has committed (in the name and on behalf of Atlante fund) for future payments (to be made by 5 January 2017) connected to Banca Popolare di Vicenza S.p.A. e Veneto Banca S.p.A. capital increases, respectively for €310 million and €628 million (partially paid on 31 December 2016 respectively for €164 million and €332 million).

As of 31 December 2017 UniCredit S.p.A.:

- with reference to Atlante fund holds No.845 shares (out of No.4,249 total shares) classified as financial assets available for sale with a carrying value of 95 million. Following cash investment of €779 million (€93 million carried in 2017) and December 2016 impairment for €547 million according to an internal evaluation model based on multiples of a banking basket, integrated with estimates on Atlante's banks NPL credit portfolio and related equity/capital needs. An additional impairment for €137 million has been recognised as at June 2017, zeroing-out the residual share of Atlante's investment into the Banks according to an internal model based on evidences arising from the liquidation process managed under the Italian banking law (ex Art.80 TUB) by winding down operations splitted in "good banks" (sold to an Italian Government's selected buyer within an open, fair and transparent sales process in order not to breach EU "state-aid" rules) and "bad banks" where existing shareholders and

## Part B - Balance Sheet - Assets

subordinated debt bondholders will fully contribute to liquidation costs. In addition UniCredit S.p.A. has a residual commitment to invest in Atlante for residual €66 million;

- with reference to Italian Recovery Fund holds shares with a carrying value, in line with the subscription price, of €99 million, classified as financial assets available for sale. In addition UniCredit S.p.A. has a residual commitment to invest in Italian Recovery Fund for residual €96 million.

The regulatory treatment of the units of Atlante and Italian Recovery Fund reflect the application of the look-through method to the underlying investments, i.e. as at December 31, 2017 the stakes indirectly held in NPLs. A credit conversion factor of 100% has been allocated to the commitments of both funds, qualified as “high risk”.

### Information about the investment in the “Schema Volontario”

UniCredit S.p.A. has joined to the “Schema volontario” (the “Schema Volontario”), introduced by FITD, with appropriate modification of its statute, in November 2015. The “Schema Volontario” is an instrument for the resolution of bank crises through support measures in favor of its member banks, if specific conditions laid down by the legislation occurring. The “Schema Volontario” has an independent funding and the participating banks are committed to supply the relevant resources upon demand, when resources are needed to fund interventions.

The “Schema Volontario”, as a private entity, has provided in April 2016 the restructuring of the support of the action that FITD had operated in July 2014 in favor of Bank Tercas, operation that generated no further charges for participating banks. Subsequently, the participating size of the “Schema Volontario” was increased up to €700 million.

In this context, on June 2016 the “Schema Volontario” approved an action in support of Cassa di Risparmio di Cesena, in relation to a capital increase approved by the same bank on 8 June 2016 for about €280 million (commitment relating to UniCredit S.p.A. amounted to €44 million). On 30 September 2016 this commitment has been converted into a monetary payment which has led to the recognition of capital instruments classified as “available for sale” for €44 million (consistent with the monetary payment). Update of evaluation of the instruments as at December 2016, according to an internal evaluation model based on multiples of a banking baskets, integrated with estimates on Bank’s credit portfolio and related equity/capital needs, has brought to full impairment of the position.

In September 2017, to face Credit Agricole CariParma intervention in favour of CariCesena, Carim and Carismi (based on a capital increase for €464 million and subscription of bonds from NPL securitisation of these banks for €170 million), the fund has increased its capital endowment till to €795 million (share of total investments attributable to UniCredit S.p.A. equal to approximately €125 million). Further in the same month, UniCredit S.p.A. has paid €9 million to the fund in respect of the part of the intervention related to the capital increase of Carim and Carismi. During December UniCredit S.p.A. has paid the remaining €72 million (€45 million referred to capital increase of the banks and €27 million referred to the subscription of securitisation’s notes). Following these events, UniCredit S.p.A.’s residual commitment towards Voluntary Scheme is substantially nil.

All payments referred to capital increase of the banks have brought to the recognition of capital instruments classified as “available for sale” for the same amount of €54 million, entirely cancelled due to the sale of the banks to Credit Agricole CariParma at a symbolic price.

Regarding the portion of investment referred to Voluntary Scheme’s subscription of Junior and Mezzanine quotes of the securitisation, initial value (€27 million) has been rectified to reflect fair value valuation declared by the Scheme (€4.4 million), as resulting from analysis conducted by the advisors in charge for the underlying credits evaluation, conducted according to a discounted cash flow model based on recovery plans elaborated by SPV’s special servicer.

Sub-item "1.2 Other debt securities" includes securities relating to securitisation transactions shown in the following table:

#### Exposures to securities relating to Securitisation transactions

(€ '000)

<b>TRANCHING</b>	<b>AMOUNTS AS AT 12.31.2017</b>
Senior	549,104
Mezzanine	148,050
Junior	-
<b>Total</b>	<b>697,154</b>

#### 4.2 Available-for-sale financial assets: breakdown by issuer/borrower

(€ '000)

ITEMS/VALUES	AMOUNTS AS AT	
	12.31.2017	12.31.2016
<b>1. Debt securities</b>	<b>57,059,031</b>	<b>61,541,120</b>
a) Governments and central banks	52,501,087	56,578,925
b) Other public-sector entities	222,815	230,478
c) Banks	3,269,761	3,985,292
d) Other issuers	1,065,368	746,425
<b>2. Equity instruments</b>	<b>1,906,311</b>	<b>2,210,724</b>
a) Banks	1,206,412	1,400,933
b) Other issuers:	699,899	809,791
- insurance companies	305	7,139
- financial companies	421,782	457,030
- non-financial companies	277,812	345,622
- other	-	-
<b>3. Units in investment funds</b>	<b>752,827</b>	<b>773,140</b>
<b>4. Loans</b>	-	-
a) Governments and central banks	-	-
b) Other public-sector entities	-	-
c) Banks	-	-
d) Other entities	-	-
<b>Total</b>	<b>59,718,169</b>	<b>64,524,984</b>

#### 4.3 Available-for-sale financial assets subject to micro-hedging

(€ '000)

ITEMS/VALUES	AMOUNTS AS AT	
	12.31.2017	12.31.2016
<b>1. Financial assets subject to micro-hedging of fair value</b>	<b>53,524,842</b>	<b>57,059,950</b>
a) Interest rate risk	53,176,527	56,664,516
b) Price risk	-	-
c) Currency risk	348,315	395,434
d) Credit risk	-	-
e) Multiple risks	-	-
<b>2. Financial assets subject to micro-hedging of cash flows</b>	-	-
a) Interest rate risk	-	-
b) Currency risk	-	-
c) Other	-	-
<b>Total</b>	<b>53,524,842</b>	<b>57,059,950</b>

Volumes of financial assets subject to fair value micro-hedging for currency risk refers to the investments of 9.9% into ABH Holding SA shares.

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## Section 5 - Held-to-maturity investments - Item 50

## 5.1 Held-to-maturity investments: breakdown by product

(€ '000)

	AMOUNTS AS AT 12.31.2017				AMOUNTS AS AT 12.31.2016			
	BOOK VALUE	FAIR VALUE			BOOK VALUE	FAIR VALUE		
		LEVEL 1	LEVEL 2	LEVEL 3		LEVEL 1	LEVEL 2	LEVEL 3
<b>1. Debt securities</b>	<b>762,431</b>	<b>22,403</b>	<b>759,067</b>	<b>-</b>	<b>755,171</b>	<b>23,653</b>	<b>748,853</b>	<b>-</b>
- structured securities	-	-	-	-	-	-	-	-
- other securities	762,431	22,403	759,067	-	755,171	23,653	748,853	-
<b>2. Loans</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>762,431</b>	<b>22,403</b>	<b>759,067</b>	<b>-</b>	<b>755,171</b>	<b>23,653</b>	<b>748,853</b>	<b>-</b>
<b>Total Level 1, Level 2 and Level 3</b>			<b>781,470</b>				<b>772,506</b>	

The held-to-maturity investments are represented by Italian government bonds.

Valuations at fair value were classified according to a hierarchy of levels reflecting the significance of the valuations input for market disclosure purposes only.

For further information see Part A - Accounting Policies - A.4 Information on fair value.

## 5.2 Held-to-maturity investments: breakdown by issuer/borrower

(€ '000)

TYPE OF TRANSACTIONS/VALUES	AMOUNTS AS AT	
	12.31.2017	12.31.2016
<b>1. Debt securities</b>	<b>762,431</b>	<b>755,171</b>
a) Governments and central banks	762,431	755,171
b) Other public-sector entities	-	-
c) Banks	-	-
d) Other issuers	-	-
<b>2. Loans</b>	<b>-</b>	<b>-</b>
a) Governments and central banks	-	-
b) Other public-sector entities	-	-
c) Banks	-	-
d) Other entities	-	-
<b>Total</b>	<b>762,431</b>	<b>755,171</b>



## Section 6 - Loans and receivables with banks - Item 60

### 6.1 Loans and receivables with banks: breakdown by product

(€ '000)

TYPE OF TRANSACTIONS/VALUES	AMOUNTS AS AT 12.31.2017				AMOUNTS AS AT 12.31.2016			
	BOOK VALUE	FAIR VALUE			BOOK VALUE	FAIR VALUE		
		LEVEL 1	LEVEL 2	LEVEL 3		LEVEL 1	LEVEL 2	LEVEL 3
<b>A. Loans to Central Banks</b>	<b>1,923,258</b>	-	-	<b>1,923,258</b>	<b>8,823,662</b>	-	-	<b>8,823,661</b>
1. Time deposits	-	X	X	X	-	X	X	X
2. Compulsory reserves	1,923,237	X	X	X	8,823,571	X	X	X
3. Reverse repos	-	X	X	X	-	X	X	X
4. Other	21	X	X	X	91	X	X	X
<b>B. Loans to banks</b>	<b>25,643,503</b>	<b>29,292</b>	<b>12,005,277</b>	<b>13,857,161</b>	<b>13,525,442</b>	<b>31,946</b>	<b>11,396,824</b>	<b>2,682,324</b>
<b>1. Loans</b>	<b>25,394,032</b>	-	<b>11,786,688</b>	<b>13,820,357</b>	<b>13,145,067</b>	-	<b>11,022,095</b>	<b>2,672,820</b>
1.1 Current accounts and demand deposits	2,418,284	X	X	X	1,355,155	X	X	X
1.2 Time deposits	7,377,101	X	X	X	1,214,971	X	X	X
1.3 Other loans	15,598,647	X	X	X	10,574,941	X	X	X
- Reverse repos	6,585,470	X	X	X	4,353,464	X	X	X
- Finance leases	-	X	X	X	-	X	X	X
- Other	9,013,177	X	X	X	6,221,477	X	X	X
<b>2. Debt securities</b>	<b>249,471</b>	<b>29,292</b>	<b>218,589</b>	<b>36,804</b>	<b>380,375</b>	<b>31,946</b>	<b>374,729</b>	<b>9,504</b>
2.1 Structured	29,511	X	X	X	-	X	X	X
2.2 Other	219,960	X	X	X	380,375	X	X	X
<b>Total</b>	<b>27,566,761</b>	<b>29,292</b>	<b>12,005,277</b>	<b>15,780,419</b>	<b>22,349,104</b>	<b>31,946</b>	<b>11,396,824</b>	<b>11,505,985</b>
<b>Total impaired assets</b>	<b>4,998</b>				<b>1,327</b>			

Total loans and receivables with banks at 31 December 2017 shows an overall increase of €5,218 million due to decrease of Loans to Central Banks (-€6,900 million) and to increase of Loans to Banks (+€12,118 million) mainly determined by the increase in time deposits (+€6,162 million), loans relating to reverse repos (+€2,232 million) and other loans (+€2,792 million).

Loans and receivables with banks are not managed on the basis of their fair value, which is only shown in order to meet disclosure requirements. Fair value measurements have been classified according to a hierarchy of levels reflecting the significance of the valuations input. For further information see Part A - Accounting Policies - A.4 Information on fair value.

It should be noted that securities lending transactions collateralised by other securities or not collateralised are shown under "off-balance sheet" exposures in table A.1.3 of Part E - Section 1 - Credit Risk, in accordance with current Banca d'Italia regulations. See also section "Other information of Part B.

## Part B - Balance Sheet - Assets

## Section 7 - Loans and receivables with customers - Item 70

## 7.1 Loans and receivables with customers: breakdown by product

(€'000)

TYPE OF TRANSACTION/VALUES	AMOUNTS AS AT 12.31.2017						AMOUNTS AS AT 12.31.2016					
	BOOK VALUE			FAIR VALUE			BOOK VALUE			FAIR VALUE		
	NON-PERFORMING			LEVEL 1	LEVEL 2	LEVEL 3	NON-PERFORMING			LEVEL 1	LEVEL 2	LEVEL 3
	PERFORMING	PURCHASED	OTHERS				PERFORMING	PURCHASED	OTHERS			
<b>Loans</b>	<b>192,652,540</b>	<b>10,383</b>	<b>13,883,227</b>	-	<b>90,364,158</b>	<b>115,343,923</b>	<b>193,877,780</b>	<b>14,867</b>	<b>15,978,309</b>	-	<b>114,360,710</b>	<b>99,554,552</b>
1. Current accounts	16,006,002	1,234	1,777,656	X	X	X	16,304,155	3,182	2,125,960	X	X	X
2. Reverse repos	23,889,970	-	-	X	X	X	24,710,465	-	-	X	X	X
3. Mortgages	86,843,221	8,484	8,976,461	X	X	X	84,466,888	7,848	9,849,536	X	X	X
4. Credit cards and personal loans, including wage assignment loans	9,991,804	1	162,418	X	X	X	9,124,755	3	187,725	X	X	X
5. Finance leases	-	-	-	X	X	X	-	-	-	X	X	X
6. Factoring	86,824	-	16,006	X	X	X	83,116	-	11,484	X	X	X
7. Other loans	55,834,719	664	2,950,686	X	X	X	59,188,401	3,834	3,803,604	X	X	X
<b>Debt securities</b>	<b>2,415,291</b>	<b>-</b>	<b>4,014</b>	<b>-</b>	<b>2,046,381</b>	<b>384,889</b>	<b>3,363,585</b>	<b>-</b>	<b>2,219</b>	<b>-</b>	<b>2,937,096</b>	<b>420,000</b>
8. Structured securities	-	-	-	X	X	X	-	-	-	X	X	X
9. Other debt securities	2,415,291	-	4,014	X	X	X	3,363,585	-	2,219	X	X	X
<b>Total</b>	<b>195,067,831</b>	<b>10,383</b>	<b>13,887,241</b>	<b>-</b>	<b>92,410,539</b>	<b>115,728,812</b>	<b>197,241,365</b>	<b>14,867</b>	<b>15,980,528</b>	<b>-</b>	<b>117,297,806</b>	<b>99,974,552</b>
<b>Total carrying amount Performing and Non-Performing</b>	<b>208,965,455</b>						<b>213,236,760</b>					

It should be noted that securities lending transactions collateralised by other securities or not collateralised are shown under “off-balance sheet” exposures in table A.1.6 of Part E - Section 1 - Credit Risk, in accordance with current Banca d'Italia regulations. See also section “Other information of Part B.

Loans and receivables with customers are not managed on the basis of their fair value, which is only shown in order to meet disclosure requirements. Fair value measurements have been classified according to a hierarchy of levels reflecting the significance of the valuations input. For further information see Part A - Accounting Policies - A.4 Information on fair value.

The changes that occurred between 31 December 2016 and 31 December 2017 in (i) the ratio between fair value and book value and (ii) fair value levels allocation of loans and receivables with customers reflect the evolution of both portfolio and market parameters together with some impacts from refinement/calibration of the methodology and parameters used to determine the fair value for financial statement purposes.

The fair value of on-demand items has been valued at their net carrying value using the possibility offered by IFRS7.29. According to this assumption, demand items were classified as level 3 in the fair value hierarchy.

The fair value of impaired loans was estimated considering that the analytical realisable value represents their net book value being the best estimate of the future expected cash flows discounted at the valuation date, further adjusted to incorporate, when available, a premium deriving from significant market's transaction for similar instruments. According to this assumption, impaired loans were classified as level 3 in the fair value hierarchy.

Sub-item "9. Other debt securities" includes securities relating to securitisation transactions shown in the following table:

**Exposures to securities relating to Securitisation transactions**

(€ '000)

<b>TRANCHING</b>		<b>AMOUNTS AS AT 12.31.2017</b>
Senior		2,008,465
Mezzanine		14,904
Junior		75,492
<b>Total</b>		<b>2,098,861</b>

**7.2 Loans and receivables with customers: breakdown by issuer/borrower**

(€ '000)

TYPE OF TRANSACTIONS/VALUES	AMOUNTS AS AT			AMOUNTS AS AT		
	12.31.2017			12.31.2016		
	PERFORMING	NON-PERFORMING		PERFORMING	NON-PERFORMING	
		PURCHASED	OTHERS		PURCHASED	OTHERS
<b>1. Debt securities:</b>	<b>2,415,291</b>	<b>-</b>	<b>4,014</b>	<b>3,363,585</b>	<b>-</b>	<b>2,219</b>
a) Governments	23,648	-	-	101,811	-	-
b) Other public-sector entities	95,363	-	-	105,169	-	-
c) Other issuers	2,296,280	-	4,014	3,156,605	-	2,219
- non-financial companies	73,678	-	-	81,001	-	-
- financial companies	2,177,606	-	4,014	3,030,607	-	2,219
- insurance companies	44,996	-	-	44,997	-	-
- other	-	-	-	-	-	-
<b>2. Loans to:</b>	<b>192,652,540</b>	<b>10,383</b>	<b>13,883,227</b>	<b>193,877,780</b>	<b>14,867</b>	<b>15,978,309</b>
a) Governments	1,275,958	-	419	963,951	-	469
b) Other public-sector entities	2,131,995	-	80,049	2,251,687	-	100,835
c) Other entities	189,244,587	10,383	13,802,759	190,662,142	14,867	15,877,005
- non-financial companies	74,546,577	5,532	7,942,329	72,864,229	8,109	9,749,253
- financial companies	56,335,509	-	725,999	58,498,375	762	804,526
- insurance companies	126,491	-	-	96,838	-	112
- other	58,236,010	4,851	5,134,431	59,202,700	5,996	5,323,114
<b>Total</b>	<b>195,067,831</b>	<b>10,383</b>	<b>13,887,241</b>	<b>197,241,365</b>	<b>14,867</b>	<b>15,980,528</b>
<b>Total Performing and Non-Performing</b>			<b>208,965,455</b>			<b>213,236,760</b>

The column "NPE - purchased" includes impaired loans purchased as part of disposals other than business combinations.

For further details see the Report on operations and Part E - Information on risks and hedging policies - Credit quality.

## Part B - Balance Sheet - Assets

## Section 8 - Hedging derivatives - Item 80

## 8.1 Hedging derivatives: breakdown by hedged risk and fair value hierarchy

(€ '000)

	AMOUNTS AS AT 12.31.2017				AMOUNTS AS AT 12.31.2016			
	FAIR VALUE			NOTIONAL AMOUNT	FAIR VALUE			NOTIONAL AMOUNT
	LEVEL 1	LEVEL 2	LEVEL 3		LEVEL 1	LEVEL 2	LEVEL 3	
<b>A. Financial derivatives</b>	<b>16,896</b>	<b>4,383,043</b>	-	<b>259,885,843</b>	<b>3,057</b>	<b>6,092,834</b>	-	<b>179,529,754</b>
1) Fair value	16,896	4,228,949	-	253,464,182	3,057	5,847,438	-	171,977,563
2) Cash flows	-	154,094	-	6,421,661	-	245,396	-	7,552,191
3) Net investment in foreign subsidiaries	-	-	-	-	-	-	-	-
<b>B. Credit derivatives</b>	-	-	-	-	-	-	-	-
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
<b>Total</b>	<b>16,896</b>	<b>4,383,043</b>	-	<b>259,885,843</b>	<b>3,057</b>	<b>6,092,834</b>	-	<b>179,529,754</b>
<b>Total Level 1, Level 2 e Level 3</b>				<b>4,399,939</b>				<b>6,095,891</b>

## 8.2 Hedging derivatives: breakdown by hedged assets and risk (book value)

(€ '000)

TRANSACTIONS/TYPE OF HEDGES	AMOUNTS AS AT 12.31.2017								
	FAIR VALUE HEDGES						CASH-FLOW HEDGES		
	MICRO-HEDGE						MACRO-HEDGE	MICRO-HEDGE	MACRO-HEDGE
INTEREST RATE RISK	CURRENCY RISK	CREDIT RISK	PRICE RISK	MULTIPLE RISKS	MACRO-HEDGE				
1. Available-for-sale financial assets	127,962	23,935	-	-	-	X	-	X	X
2. Loans and receivables	-	-	-	X	-	X	-	X	X
3. Held-to-maturity investments	X	-	-	X	-	X	-	X	X
4. Portfolio	X	X	X	X	X	1,578,256	X	127,111	X
5. Other investments	-	-	-	-	-	X	-	X	-
<b>Total assets</b>	<b>127,962</b>	<b>23,935</b>	-	-	-	<b>1,578,256</b>	-	<b>127,111</b>	-
1. Financial liabilities	-	-	-	X	-	X	-	X	X
2. Portfolio	X	X	X	X	X	2,515,692	X	26,983	X
<b>Total liabilities</b>	-	-	-	-	-	<b>2,515,692</b>	-	<b>26,983</b>	-
1. Expected transactions	X	X	X	X	X	X	-	X	X
2. Financial assets and liabilities portfolio	X	X	X	X	X	-	X	-	-

## Section 9 - Changes in fair value of portfolio hedge financial assets - Item 90

### 9.1 Changes to macro-hedged financial assets: breakdown by hedged portfolio

(€ '000)

CHANGES TO HEDGED ASSETS/VALUES	AMOUNTS AS AT	
	12.31.2017	12.31.2016
<b>1. Positive changes</b>	<b>3,088,861</b>	<b>3,903,401</b>
1.1 of specific portfolios:	-	-
a) loans and receivables	-	-
b) available-for-sale financial assets	-	-
1.2 overall	3,088,861	3,903,401
<b>2. Negative changes</b>	<b>1,374,373</b>	<b>1,839,671</b>
2.1 of specific portfolios:	-	-
a) loans and receivables	-	-
b) available-for-sale financial assets	-	-
2.2 overall	1,374,373	1,839,671
<b>Total</b>	<b>1,714,488</b>	<b>2,063,730</b>

### 9.2 Assets subject to macro-hedging of interest-rate risk

(€ '000)

	AMOUNTS AS AT	
	12.31.2017	12.31.2016
1. Loans and receivables	-	-
2. Available-for-sale financial assets	-	-
3. Portfolio	43,022,850	32,368,480
<b>Total</b>	<b>43,022,850</b>	<b>32,368,480</b>

## Part B - Balance Sheet - Assets

## Section 10 - Equity investments - Item 100

## 10.1 Equity: information on shareholder's equity

COMPANY NAME	MAIN OFFICE LEGAL	MAIN OFFICE OPERATIVE <sup>(1)</sup>	EQUITY % <sup>(2)</sup>	VOTING RIGHTS %
<b>A. Subsidiaries</b>				
1 Anthemis EVO LLP	London	London	50.00%	
2 AO UniCredit Bank	Moscow	Moscow	100.00%	
3 Bavaria Servicos de Representacao Comercial LTDA	Sao Paulo	Sao Paulo	99.53%	<sup>(A)</sup>
4 Box 2004 S.r.l. (in liquidation)	Rome	Rome	100.00%	
5 Capital Dev S.p.A.	Rome	Rome	100.00%	
6 Cordusio SIM S.p.A.	Milan	Milan	96.10%	
7 Cordusio Società Fiduciaria per Azioni	Milan	Milan	100.00%	
8 CORIT - Concessionaria Riscossione Tributi S.p.A. (in liquidation)	Rome	Rome	60.00%	
9 Custodia Valore - Credito su Pegno S.r.l.	Bolzan	Bolzan	100.00%	
10 Crivelli S.r.l.	Milan	Milan	100.00%	
11 Fineco Verwaltung AG (in liquidation)	Munich	Munich	100.00%	
12 FinecoBank S.p.A.	Milan	Reggio Emilia	35.39%	
13 Island Finance (ICR4) S.r.l. (in liquidation)	Rome	Rome	100.00%	
14 Istituto Immobiliare di Catania S.p.A.	Catania	Catania	1.12%	<sup>(B)</sup>
15 Nuova Compagnia di Partecipazioni S.p.A.	Rome	Rome	100.00%	
16 Pioneer Alternative Investments (Bermuda) Limited	Hamilton	Hamilton	100.00%	
17 Pai Management LTD	Dublin	Dublin	100.00%	
18 Pioneer Alternative Investments (New York) Limited	Dover	New York	100.00%	
19 Pioneer Alternative Investments (Israel) Limited (in voluntary liquidation)	Ramat Gan	Ramat Gan	100.00%	
20 Pioneer Global Funds Distributor Ltd	Hamilton	Hamilton	100.00%	
21 Pirta Verwaltungs GMBH	Wien	Wien	100.00%	
22 Sanità - S.r.l. (in liquidation)	Rome	Rome	99.60%	
23 SIA UniCredit Leasing	Riga	Riga	100.00%	
24 Società di Gestioni Esattoriali in Sicilia SO.G.E.SI. S.p.A. (in liquidation)	Palermo	Palermo	80.00%	
25 Società Italiana Gestione ed Incasso Crediti S.p.A. (in liquidation)	Rome	Rome	100.00%	
26 Sofigere Société par Actions Simplifiée	Paris	Paris	100.00%	
27 Trieste Adriatic Maritime Initiatives S.r.l.	Trieste	Trieste	36.68%	
28 UniCredit Bank A.D. Banja Luka	Banja Luka	Banja Luka	98.46%	
29 UniCredit Bank AG	Munich	Munich	100.00%	
30 UniCredit Bank Austria AG	Wien	Wien	99.99%	
31 UniCredit Bank Ireland P.l.c.	Dublin	Dublin	100.00%	
32 UniCredit Bank Hungary ZRT	Budapest	Budapest	100.00%	
33 UniCredit Bank S.A.	Bucharest	Bucharest	98.33%	
34 UniCredit Bank Serbia JSC	Belgrade	Belgrade	100.00%	
35 UniCredit Banka Slovenija D.D.	Ljubljana	Ljubljana	100.00%	
36 UniCredit BPC Mortgage S.r.l.	Verona	Verona	60.00%	
37 UniCredit Bulbank A.D.	Sofia	Sofia	99.45%	
38 UniCredit Business Integrated Solutions Società consortile per azioni	Milan	Milan	100.00%	<sup>(C)</sup>
39 UniCredit Bank Czech Republic and Slovakia A.S.	Prague	Prague	100.00%	
40 UniCredit Consumer Financing IFN S.A.	Bucharest	Bucharest	49.90%	<sup>(D)</sup>
41 UniCredit Factoring S.p.A.	Milan	Milan	100.00%	
42 UniCredit Global Leasing Export GMBH	Wien	Wien	100.00%	
43 UniCredit International Bank (Luxembourg) S.A.	Luxembourg	Luxembourg	100.00%	
44 UniCredit Leasing S.p.A.	Milan	Milan	100.00%	
45 UniCredit OBG S.r.l.	Verona	Verona	60.00%	
46 UniCredit Subito Casa S.p.A.	Milan	Milan	100.00%	
47 UniCredit (U.K.) Trust Services Ltd	London	London	100.00%	
48 UniCredit Turn-Around Management GMBH	Wien	Wien	100.00%	
49 Visconti S.r.l.	Milan	Milan	76.00%	
50 Zagrebacka Banka D.D.	Zagreb	Zagreb	84.48%	

Continued: 10.1 Equity: information on shareholder's equity

COMPANY NAME	MAIN OFFICE LEGAL	MAIN OFFICE OPERATIVE <sup>(*)</sup>	EQUITY % <sup>(**)</sup>	VOTING RIGHTS %
<b>B. Joint ventures</b>				
1 Koc Finansal Hizmetler AS	Istanbul	Istanbul	50.00%	
<b>C. Companies under significant influence</b>				
1 Accadiesse S.p.A. (in liquidation)	Milan	Milan	4.68%	<sup>(E)</sup>
2 Asset Bancari II	Milan	Milan	21.55%	<sup>(F)</sup>
3 Aviva S.p.A.	Milan	Milan	49.00%	
4 Barn B.V.	Amsterdam	Amsterdam	40.00%	
5 Camfin S.p.A.	Milan	Milan	12.00%	
6 CNP UniCredit Vita S.p.A.	Milan	Milan	38.80%	
7 Compagnia Aerea Italiana S.p.A.	Fiumicino (Rome)	Fiumicino (Rome)	36.59%	
8 Creditras Assicurazioni S.p.A.	Milan	Milan	50.00%	
9 Creditras Vita S.p.A.	Milan	Milan	50.00%	
10 Credifarma S.p.A.	Rome	Rome	16.25%	
11 Europrogetti & Finanza S.p.A. (in liquidation)	Rome	Rome	39.79%	
12 EuroTLX SIM S.p.A.	Milan	Milan	15.00%	
13 Fenice Holding S.p.A. (in liquidation)	Calenzano (FI)	Calenzano (FI)	25.91%	
14 Fenice S.r.l.	Milan	Milan	21.04%	
15 Focus Investments S.p.A.	Milan	Milan	8.33%	25.00%
16 Incontra Assicurazioni S.p.A.	Milan	Milan	49.00%	
17 La Fortezza S.r.l.	Catanzaro	Catanzaro	1.00%	
18 Le Cotoniere S.p.A.	Naples	Naples	33.33%	
19 Le Vigne S.r.l.	Catanzaro	Catanzaro	1.00%	
20 Maccorp Italiana S.p.A.	Milan	Milan	25.45%	
21 Mediobanca - Banca di Credito Finanziario S.p.A.	Milan	Milan	8.43%	
22 Officinae Verdi S.p.A.	Rome	Rome	26.03%	
23 Risanamento S.p.A.	Milan	Milan	22.23%	
24 Sviluppo Globale GEIE (in liquidation)	Rome	Rome	33.33%	
25 Società Italiana di Monitoraggio S.p.A.	Rome	Rome	12.89%	
26 Torre SGR S.p.A.	Rome	Rome	37.50%	

**Notes:**

(\*) Also meaning the administrative office.

(\*\*) The equity stake is held by the Parent Company and does not include any stake held by other Group companies.

(A) The remaining share of 0.47% is held by UniCredit (U.K.) Trust Services Ltd.

(B) 93.92% is held by Capital Dev S.p.A.

(C) A fractional share is held by various Group companies.

(D) The remaining share of 50.10% is held indirectly by UniCredit Bank S.A.

(E) Equity instruments (Strumenti Finanziari Partecipativi) have been subscribed; the portion subscribed is calculated on the total equity instruments issued by the investee.

(F) It is a real estate closed-end investment fund.

Following the merger of the segment of Business belonging to UniCredit Bank Austria in 2016, UniCredit S.p.A. directly holds entities belonging to the CEE division of the Group.

The equity interest in Mediobanca - Banca di Credito Finanziario S.p.A. is classified under companies subject to significant influence by virtue of UniCredit S.p.A.'s right, resulting from its participation in the Shareholders' Agreement, to be represented by its officers in the Board of Directors and therefore to also participate in determining the company's financial and operating policies.

The investments are individually tested for impairment in accordance with the provisions of IAS36. When the conditions provided for therein apply, their recovery value is determined, meant as the higher of their "fair value" and "value in use" (the latter determined by discounting the cash flows at a rate that takes account of the current market rates and the specific risks of the asset or using other commonly accepted valuation criteria and methods suitable for the correct valuation of the investment). If the recovery value is lower than the carrying amount, the latter is consequently reduced by allocating the corresponding impairment loss to the Income Statement.

On the basis of the above impairment loss has been recognised in subsidiaries, including: -€83 million Koc Finansal Hizmetler, -€39 million UniCredit International Luxembourg, -€14 million I-Faber. Also reversal of previous impairments have been recognised, including UniCredit Bank AG (+€293 million) e UniCredit Bank Austria (+€947 million).

## Part B - Balance Sheet - Assets

## 10.5 Equity investments: annual changes

(€ '000)

	CHANGES IN	
	2017	2016
<b>A. Opening balance</b>	<b>42,935,070</b>	<b>45,847,175</b>
<b>B. Increases</b>	<b>1,872,523</b>	<b>23,533,299</b>
B.1 Purchases	609,892	22,915,982
<i>of which: business combinations</i>	57,034	21,435,080
B.2 Write-backs	1,248,620	4,056
B.3 Revaluation	-	-
B.4 Other changes	14,011	613,261
<b>C. Decreases</b>	<b>662,108</b>	<b>26,445,404</b>
C.1 Sales	21,262	20,003,247
<i>of which: business combinations</i>	13,767	18,365,592
C.2 Write-downs	164,717	1,113,118
C.3 Other changes	476,129	5,329,039
<b>D. Closing balance</b>	<b>44,145,485</b>	<b>42,935,070</b>
<b>E. Total revaluation</b>	<b>-</b>	<b>-</b>
<b>F. Total write-downs</b>	<b>11,386,382</b>	<b>12,309,275</b>

In 2017 the sub-item "B.1 Purchases" includes the effects arising from business combinations occurred in the year (incorporation of Pioneer Global Management S.p.A. and UniCredit International Luxembourg). The sub-item "C.3 Other changes" includes the reduction covered through the use of the provisions of €470 million set up in 2016 to face commitments towards the subsidiary UniCredit Leasing S.p.A. to cover its losses.

Values referred to 2016 mainly reflect the effects arising from the transfer of "Cee Business" from UniCredit Bank Austria AG.



## Section 11 - Property, plant and equipment - Item 110

### 11.1 Property, plant and equipment used in the business: breakdown of assets carried at cost

(€' 000)

ASSETS/VALUES	AMOUNTS AS AT	
	12.31.2017	12.31.2016
<b>1. Owned assets</b>	<b>1,668,541</b>	<b>1,704,079</b>
a) land	633,228	644,359
b) buildings	721,109	740,035
c) office furniture and fitting	38,245	38,823
d) electronic systems	170,997	177,286
e) other	104,962	103,576
<b>2 Leased assets</b>	-	-
a) land	-	-
b) buildings	-	-
c) office furniture and fitting	-	-
d) electronic systems	-	-
e) other	-	-
<b>Total</b>	<b>1,668,541</b>	<b>1,704,079</b>

### 11.2 Property, plant and equipment held for investment: breakdown of assets carried at cost

(€' 000)

ASSETS/VALUES	AMOUNTS AS AT 12.31.2017			AMOUNTS AS AT 12.31.2016				
	BOOK VALUE	FAIR VALUE			BOOK VALUE	FAIR VALUE		
		LEVEL 1	LEVEL 2	LEVEL 3		LEVEL 1	LEVEL 2	LEVEL 3
<b>1. Owned assets</b>	<b>540,914</b>	-	-	<b>704,974</b>	<b>636,652</b>	-	-	<b>859,748</b>
a) land	248,573	-	-	333,428	308,444	-	-	316,236
b) buildings	292,341	-	-	371,546	328,208	-	-	543,512
<b>2. Leased assets</b>	-	-	-	-	-	-	-	-
a) land	-	-	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-	-	-
<b>Total</b>	<b>540,914</b>	-	-	<b>704,974</b>	<b>636,652</b>	-	-	<b>859,748</b>
<b>Total Level 1, Level 2 and Level 3</b>				<b>704,974</b>				<b>859,748</b>

### 11.4 Property, plant and equipment: breakdown of assets measured at fair value

For the measurement of property, plant and equipment, the Company does not apply the revaluation model.

## Part B - Balance Sheet - Assets

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

(€'000)

	CHANGES IN 2017					TOTAL
	LAND	BUILDINGS	OFFICE FURNITURE AND FITTINGS	ELECTRONIC SYSTEMS	OTHER	
<b>A. Gross opening balance</b>	<b>644,359</b>	<b>1,314,141</b>	<b>652,950</b>	<b>1,249,083</b>	<b>498,736</b>	<b>4,359,269</b>
A.1 Total net reduction in value	-	(574,106)	(614,127)	(1,071,797)	(395,160)	(2,655,190)
<b>A.2 Net opening balance</b>	<b>644,359</b>	<b>740,035</b>	<b>38,823</b>	<b>177,286</b>	<b>103,576</b>	<b>1,704,079</b>
<b>B Increases</b>	<b>-</b>	<b>32,249</b>	<b>4,492</b>	<b>44,579</b>	<b>25,621</b>	<b>106,941</b>
B.1 Purchases	-	-	4,314	44,431	25,493	74,238
<i>of which: business combination</i>	-	-	-	-	-	-
B.2 Capitalised expenditure on improvements	-	32,074	-	-	-	32,074
B.3 Write-backs	-	-	-	-	-	-
B.4 Increases in fair value:	-	-	-	-	-	-
<i>a) in equity</i>	-	-	-	-	-	-
<i>b) through profit or loss</i>	-	-	-	-	-	-
B.5 Positive exchange differences	-	-	-	-	-	-
B.6 Transfer from properties held for investment	-	175	-	-	-	175
B.7 Other changes	-	-	178	148	128	454
<b>C. Reductions</b>	<b>11,131</b>	<b>51,175</b>	<b>5,070</b>	<b>50,868</b>	<b>24,235</b>	<b>142,479</b>
C.1 Disposals	-	-	80	-	229	309
<i>of which: business combination</i>	-	-	-	-	-	-
C.2 Depreciation	-	38,352	4,715	44,266	22,271	109,604
C.3 Impairment losses	29	776	274	6,490	192	7,761
<i>a) in equity</i>	-	-	-	-	-	-
<i>b) through profit or loss</i>	29	776	274	6,490	192	7,761
C.4 Reduction of fair value:	-	-	-	-	-	-
<i>a) in equity</i>	-	-	-	-	-	-
<i>b) through profit or loss</i>	-	-	-	-	-	-
C.5 Negative exchange differences	-	-	1	14	-	15
C.6 Transfer to:	11,102	12,047	-	-	-	23,149
<i>a) property, plant and equipment held for investment</i>	10,733	11,932	-	-	-	22,665
<i>b) assets held for sale</i>	369	115	-	-	-	484
C.7 Other changes	-	-	-	98	1,543	1,641
<b>D. Net final balance</b>	<b>633,228</b>	<b>721,109</b>	<b>38,245</b>	<b>170,997</b>	<b>104,962</b>	<b>1,668,541</b>
D.1 Total net reduction in value	-	(607,287)	(602,994)	(1,057,415)	(373,645)	(2,641,341)
<b>D.2 Gross closing balance</b>	<b>633,228</b>	<b>1,328,396</b>	<b>641,239</b>	<b>1,228,412</b>	<b>478,607</b>	<b>4,309,882</b>
<b>E. Carried at cost</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

## 11.6 Property, plant and equipment held for investment: annual changes

(€'000)

	CHANGES IN 2017		
	LAND	BUILDINGS	TOTAL
<b>A. Gross Opening balances</b>	<b>308,444</b>	<b>552,985</b>	<b>861,429</b>
<b>A.1 Total net reduction in value</b>	-	<b>(224,776)</b>	<b>(224,776)</b>
<b>A Opening balances</b>	<b>308,444</b>	<b>328,208</b>	<b>636,652</b>
<b>B. Increases</b>	<b>11,851</b>	<b>18,632</b>	<b>30,483</b>
B.1 Purchases	-	-	-
<i>of which: business combinations</i>	-	-	-
B.2 Capitalised expenditure on improvements	41	5,567	5,608
B.3 Increases in fair value	-	-	-
B.4 Write backs	-	-	-
B.5 Positive exchange differences	-	-	-
B.6 Transfer from properties used in the business	10,733	11,932	22,665
B.7 Other changes	1,077	1,133	2,210
<b>C. Reductions</b>	<b>71,722</b>	<b>54,499</b>	<b>126,221</b>
C.1 Disposals	98	292	390
<i>of which: business combinations</i>	98	292	390
C.2 Depreciation	-	15,321	15,321
C.3 Reductions in fair value	-	-	-
C.4 Impairment losses	1,775	23,594	25,369
C.5 Negative exchange differences	-	-	-
C.6 Transfer to:	69,849	15,292	85,141
a) <i>Properties used in the business</i>	-	175	175
b) <i>Non current assets classified as held for sale</i>	69,849	15,117	84,966
C.7 Other changes	-	-	-
<b>D. Closing balances</b>	<b>248,573</b>	<b>292,341</b>	<b>540,914</b>
<b>D.1 Total net reduction in value</b>	-	<b>(219,856)</b>	<b>(219,856)</b>
<b>D.2 Gross closing balances</b>	<b>248,573</b>	<b>512,197</b>	<b>760,770</b>
<b>E. Measured at fair value</b>	<b>333,428</b>	<b>371,546</b>	<b>704,974</b>

## Part B - Balance Sheet - Assets

## Section 12 - Intangible assets - Item 120

## 12.1 Intangible assets: breakdown by asset type

(€' 000)

ASSETS/VALUES	AMOUNTS AS AT 12.31.2017		AMOUNTS AS AT 12.31.2016	
	FINITE LIFE	INDEFINITE LIFE	FINITE LIFE	INDEFINITE LIFE
<b>A.1 Goodwill</b>	X	-	X	-
<b>A.2 Other intangible assets</b>	<b>4,350</b>	-	<b>4,768</b>	-
A.2.1 Assets carried at cost:	4,350	-	4,768	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	4,350	-	4,768	-
A.2.2 Assets valued at fair value:	-	-	-	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	-	-	-	-
<b>Total</b>	<b>4,350</b>	-	<b>4,768</b>	-
<b>Total finite and indefinite life</b>		<b>4,350</b>		<b>4,768</b>

## 12.2 Intangible assets: annual changes

(€' 000)

	CHANGES IN 2017					TOTAL
	OTHER INTANGIBLE ASSETS				GOODWILL	
	GENERATED INTERNALLY		OTHER			
	FINITE LIFE	INDEFINITE LIFE	FINITE LIFE	INDEFINITE LIFE		
<b>A. Gross opening balance</b>	<b>7,709,526</b>	-	-	<b>239,705</b>	-	<b>7,949,231</b>
A.1 Total net reduction in value	(7,709,526)	-	-	(234,937)	-	(7,944,463)
<b>A.2 Net opening balance</b>	-	-	-	<b>4,768</b>	-	<b>4,768</b>
<b>B. Increases</b>	-	-	-	<b>4,082</b>	-	<b>4,082</b>
B.1 Purchases	-	-	-	4,082	-	4,082
<i>of which: business combinations</i>	-	-	-	3,043	-	3,043
B.2 Increases in intangible assets generated internally	X	-	-	-	-	-
B.3 Write-backs	X	-	-	-	-	-
B.4 Increases in fair value	X	-	-	-	-	-
- in equity	X	-	-	-	-	-
- through profit or loss	X	-	-	-	-	-
B.5 Positive exchange differences	-	-	-	-	-	-
B.6 Other changes	-	-	-	-	-	-
<b>C. Reduction</b>	-	-	-	<b>4,500</b>	-	<b>4,500</b>
C.1 Disposals	-	-	-	-	-	-
<i>of which: business combinations</i>	-	-	-	-	-	-
C.2 Write-downs	-	-	-	4,434	-	4,434
- amortisation	X	-	-	1,573	-	1,573
- write-downs	-	-	-	2,861	-	2,861
+ in equity	X	-	-	-	-	-
+ through profit or loss	-	-	-	2,861	-	2,861
C.3 Reduction in fair value	X	-	-	-	-	-
- in equity	X	-	-	-	-	-
- through profit or loss	X	-	-	-	-	-
C.4 Transfer to non-current assets held for sale	-	-	-	-	-	-
C.5 Negative exchange differences	-	-	-	66	-	66
C.6 Other changes	-	-	-	-	-	-
<b>D. Net Closing Balance</b>	-	-	-	<b>4,350</b>	-	<b>4,350</b>
D.1 Total net write-down	(7,709,526)	-	-	(236,792)	-	(7,946,318)
<b>E. Gross closing balance</b>	<b>7,709,526</b>	-	-	<b>241,142</b>	-	<b>7,950,668</b>
<b>F. Carried at cost</b>	-	-	-	-	-	-

## Section 13 - Tax assets and tax liabilities - Item 130 (Assets) and Item 80 (Liabilities)

### 13.1 Deferred tax assets: breakdown

(€ 000)

	AMOUNTS AS AT	
	12.31.2017	12.31.2016
<b>Deferred tax assets deriving from Italian law 214/2011</b>	<b>8,156,932</b>	<b>11,017,399</b>
<b>Deferred tax assets deriving from tax losses</b>	<b>247,000</b>	<b>89,500</b>
<b>Deferred tax assets deriving from temporary differences</b>	<b>648,793</b>	<b>729,816</b>
Financial assets and liabilities (different from Credits and Debts)	48,579	57,709
Credits and debts with banks and clients	7,156	81,007
Hedging and hedged item revaluation	43,428	57,964
Intangible assets different from goodwill	63,124	330
Goodwill and equity investments	-	58,899
Assets and liabilities held for disposal	-	-
Other assets and Other liabilities	3,873	162,384
Provisions, pension funds and similar	482,633	293,726
Other	-	17,797
<b>Accounting offsetting</b>	<b>(402,455)</b>	<b>(522,564)</b>
<b>TOTAL</b>	<b>8,650,270</b>	<b>11,314,151</b>

The item "Investments in associates and joint ventures" includes €3,171.1 million in 2017 relating to deferred tax assets (for IRES and IRAP) due to the tax release of the value of the equity investments pursuant to Art.23 of D.L. 98/2011; in addition under "Intangible assets" €1,288.9 million of deferred tax (IRES and IRAP) arising from goodwill tax redemption are included.

The above mentioned amounts are the ones resulting upon the sustainability test provided for by IAS12, taking into account the economic projections foreseeable for future years and the peculiarities of the fiscal legislations of each country, in order to check, under a horizon of 5 years, set in order to harmonise the approach within the main Group Legal Entities, whether there are future taxable incomes to absorb them.

With particular reference to deferred tax assets due to temporary differences (€8,996.8 million registered before the offset against the corresponding deferred tax liabilities), the sustainability test takes into account, besides the economic projections, the forecasts for the transformability of deferred tax assets into tax credits under the terms of Italian Law No.214/2011.

### 13.2 Deferred tax liabilities: breakdown

(€ 000)

	AMOUNTS AS AT	
	12.31.2017	12.31.2016
<b>Deferred tax liabilities deriving from temporary differences</b>	<b>402,455</b>	<b>522,564</b>
Financial assets and liabilities (different from Credits and Debts)	258,412	328,933
Credits and debts with banks and clients	-	-
Hedging and hedged item revaluation	26,152	59,879
Tangible assets and intangible assets different from goodwill	115,227	125,719
Goodwill and equity investments	-	5,368
Assets and liabilities held for disposal	-	-
Other assets and Other liabilities	-	2,665
Other	2,664	-
<b>Accounting offsetting</b>	<b>(402,455)</b>	<b>(522,564)</b>
<b>Total</b>	<b>-</b>	<b>-</b>

At 31 December 2017, the total amount of deferred tax assets convertible into tax credits amounted to €7,191.6 million for IRES and €965.3 million for IRAP purposes.

Deferred tax assets, in addition to the normal offsetting against current taxes, were reduced of €2,859.3 million, of which €2,520.5 million for IRES and €338.8 million for IRAP as a result of the transformation into tax credits based on the 2016 accounting loss of €11,460.1 million.

For further information on Conversion of DTAs into tax credit see the related paragraph in the Report on Operations.

## Part B - Balance Sheet - Assets

## 13.3 Deferred tax assets: annual changes (balancing P&amp;L)

(€ 000)

	CHANGES IN	
	2017	2016
<b>1. Opening balance</b>	<b>11,139,449</b>	<b>11,571,911</b>
<b>2. Increases</b>	<b>1,634,701</b>	<b>994,762</b>
2.1 Deferred tax assets arising during the year	1,109,935	231,653
a) relating to previous years	50,635	5,276
b) due to change in accounting policies	-	-
c) write-backs	492,321	-
d) other	566,979	226,377
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	524,766	763,109
business combinations	2,202	6,208
effect of netting DTA/DTL previous year	522,564	645,537
other	-	111,364
<b>3. Decreases</b>	<b>4,476,850</b>	<b>1,427,224</b>
3.1 Deferred tax assets derecognised during the year	1,051,042	561,307
a) reversals of temporary differences	572,800	469,416
b) write-downs of non-recoverable items	380,241	84,007
c) change in accounting policies	-	-
d) other	98,001	7,884
3.2 Reduction in tax rates	-	-
3.3 Other decreases	3,425,808	865,917
a) conversion into tax credit under L. 214/2011	2,859,421	341,419
b) other	566,387	524,498
business combinations	-	1,935
effect of netting DTA/DTL current year	402,455	-
other	163,932	522,563
<b>4. Final amount</b>	<b>8,297,300</b>	<b>11,139,449</b>

## 13.3.1 Deferred tax assets (L. 214/2011): annual changes (balancing P&amp;L)

(€ 000)

	CHANGES IN	
	2017	2016
<b>1. Opening balance</b>	<b>11,017,399</b>	<b>11,354,076</b>
<b>2. Increases</b>	<b>-</b>	<b>5,070</b>
<b>3. Decreases</b>	<b>2,860,222</b>	<b>341,747</b>
3.1 Reversal	-	-
3.2 Conversion into tax credits	2,859,421	341,419
a) due to loss positions arising from P&L	2,859,421	341,419
b) due to tax losses	-	-
3.3 Other decreases	801	328
<b>4. Final amount</b>	<b>8,157,177</b>	<b>11,017,399</b>

### 13.4 Deferred tax liabilities: annual changes (balancing P&L)

(€ 000)

	CHANGES IN	
	2017	2016
<b>1. Opening balance</b>	-	-
<b>2. Increases</b>	<b>137,724</b>	<b>180,586</b>
2.1 Deferred tax liabilities arising during the year	4,606	-
a) relating to previous years	-	-
b) due to change in accounting policies	-	-
c) other	4,606	-
2.2 New taxes or increases in tax rates	-	33,234
2.3 Other increases	133,118	147,352
business combinations	-	-
effect of netting DTA/DTL previous year	133,101	140,420
other	17	6,932
<b>3. Decreases</b>	<b>137,724</b>	<b>180,586</b>
3.1 Deferred tax liabilities derecognised during the year	16,055	47,404
a) reversals of temporary differences	16,055	47,404
b) due to change in accounting policies	-	-
c) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	121,669	133,182
business combinations	-	80
effect of netting DTA/DTL current year	121,669	-
other	-	133,102
<b>4. Final amount</b>	<b>-</b>	<b>-</b>

### 13.5 Deferred tax assets: annual changes (balancing Net Equity)

(€ 000)

	CHANGES IN	
	2017	2016
<b>1. Opening balance</b>	<b>174,703</b>	<b>176,697</b>
<b>2. Increases</b>	<b>451,021</b>	<b>97,633</b>
2.1 Deferred tax assets arising during the year	450,083	85,987
a) relating to previous years	-	-
b) due to change in accounting policies	-	-
c) other	450,083	85,987
2.2 New taxes or increase in tax rates	-	-
2.3 Other increases	938	11,646
business combinations	-	1,374
effect of netting DTA/DTL previous year	-	10,272
other	938	-
<b>3. Decreases</b>	<b>272,754</b>	<b>99,628</b>
3.1 Deferred tax assets derecognised during the year	272,754	99,294
a) reversals of temporary differences	200,760	51,579
b) writedowns of non-recoverable items	800	-
c) due to change in accounting policies	-	-
d) other	71,194	47,715
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	334
business combinations	-	-
effect of netting DTA/DTL current year	-	-
other	-	334
<b>4. Final amount</b>	<b>352,970</b>	<b>174,702</b>

## Part B - Balance Sheet - Assets

## 13.6 Deferred tax liabilities: annual changes (balancing Net Equity)

(€' 000)

	CHANGES IN	
	2017	2016
<b>1. Opening balance</b>	-	<b>9,791</b>
<b>2. Increases</b>	<b>723,252</b>	<b>664,859</b>
2.1 Deferred tax liabilities arising during the year	333,789	146,243
<i>a) relating to previous years</i>	-	-
<i>b) due to change in accounting policies</i>	-	-
<i>c) other</i>	333,789	146,243
2.2 New taxes or increase in tax rates	-	-
2.3 Other increases	389,463	518,616
<i>business combinations</i>	-	-
<i>effect of netting DTA/DTL previous year</i>	389,463	515,389
<i>other</i>	-	3,227
<b>3. Decreases</b>	<b>723,252</b>	<b>674,650</b>
3.1 Deferred tax liabilities derecognised during the year	441,146	285,187
<i>a) reversal of temporary differences</i>	127,859	125,014
<i>b) due to change in accounting policies</i>	-	-
<i>c) other</i>	313,287	160,173
3.2 Reduction in tax rates	-	-
3.3 Other decreases	282,106	389,463
<i>business combinations</i>	-	-
<i>effect of netting DTA/DTL current year</i>	280,787	389,463
<i>other</i>	1,319	-
<b>4. Final amount</b>	<b>-</b>	<b>-</b>

## 13.7 Other information

## NATIONAL TAX GROUP

Legislative Decree 344 of 12 December 2003 reforming the Italian corporate income tax (IRES) introduced the taxation for Corporate Groups income under the national tax group regime.

The regime of national tax group is optional, with a duration bound for three financial years and certain conditions (controlling relationship, same operating period) to be met.

At present, participation in the national tax group allows the immediate offset of income and tax losses generated by companies included in the scope of consolidation.

For the financial year 2017 the companies that adhered to the national tax group with the Parent Company UniCredit S.p.A. were:

- UniCredit Factoring - Milan
- UniCredit Leasing - Milan
- i-Faber - Milan
- Cordusio Fiduciaria - Milan
- UniCredit Business Integrated Solutions - Milan
- Cordusio SIM - Milan
- UniCredit Bank AG - Milan Branch

The number of Companies included in the 2017 Tax Group perimeter with respect to 2016 decreased by two units as:

- Pioneer Investment Management - Milan, was sold outside the Group;
- Pioneer Global Asset Management - Milan, was merged in UniCredit S.p.A. on 1 November 2017 with accounting and tax effective date on 1 January 2017.

## DEFERRED TAX ASSETS DUE TO TAX LOSSES CARRIED FORWARD

In 2017 tax losses to be carried forward for €468.9 million emerged, up to a total amount of €3,272.7 million together with the amount of 2016.

A further amount of €32.5 million deriving from the merger of the subsidiary PGAM must be added.

Not recoverable foreign branches fiscal losses are reported for about €4,824 million connected to branches start up or for other set-up costs.

It's about tax losses which can only be used against the taxable income of individual branches for taxes due in the country in which they are based.



## Section 14 - Non-current assets and disposal groups classified as held for sale - Item 140 (Assets) and Item 90 (Liabilities)

### 14.1 Non-current assets and disposal groups classified as held for sale: breakdown by asset type

(€'000)

	AMOUNTS AS AT	
	12.31.2017	12.31.2016
<b>A. Individual assets</b>		
A.1 Financial assets	54,553	2,209,063
A.2 Equity investments	8,234	5,201,971
A.3 Property, Plant and Equipment	87,244	27,927
A.4 Intangible assets	-	-
A.5 Other non-current assets	-	-
<b>Total A</b>	<b>150,031</b>	<b>7,438,961</b>
<i>of which carried at cost</i>	70,725	4,487,863
<i>of which designated at fair value - level 1</i>	-	-
<i>of which designated at fair value - level 2</i>	79,306	2,951,098
<i>of which designated at fair value - level 3</i>	-	-
<b>B. Assets groups classified as held for sale</b>		
B.1 Financial assets held for trading	-	-
B.2 Financial assets at fair value through profit or loss	-	-
B.3 Available for sale financial assets	-	-
B.4 Held to maturity investments	-	-
B.5 Loans and receivables with banks	-	-
B.6 Loans and receivables with customers	-	-
B.7 Equity investments	-	-
B.8 Property, Plant and Equipment	-	-
B.9 Intangible assets	-	-
B.10 Other assets	-	-
<b>Total B</b>	-	-
<i>of which carried at cost</i>	-	-
<i>of which designated at fair value - level 1</i>	-	-
<i>of which designated at fair value - level 2</i>	-	-
<i>of which designated at fair value - level 3</i>	-	-
<b>Total A+B</b>	<b>150,031</b>	<b>7,438,961</b>
<b>C. Liabilities associated with assets classified as held for sale</b>		
C.1 Deposits	-	-
C.2 Securities	-	-
C.3 Other liabilities	-	2,544
<b>Total C</b>	-	<b>2,544</b>
<i>of which carried at cost</i>	-	2,544
<i>of which designated at fair value - level 1</i>	-	-
<i>of which designated at fair value - level 2</i>	-	-
<i>of which designated at fair value - level 3</i>	-	-
<b>D. Liabilities included in disposal groups classified as held for sale</b>		
D.1 Deposits from banks	-	-
D.2 Deposits from customers	-	-
D.3 Debt securities in issue	-	-
D.4 Financial liabilities held for trading	-	-
D.5 Financial liabilities at fair value through profit or loss	-	-
D.6 Provisions	-	-
D.7 Other liabilities	-	-
<b>Total D</b>	-	-
<i>of which carried at cost</i>	-	-
<i>of which designated at fair value - level 1</i>	-	-
<i>of which designated at fair value - level 2</i>	-	-
<i>of which designated at fair value - level 3</i>	-	-

## Part B - Balance Sheet - Assets

The decrease occurred in the financial year was determined by the disposal (i) of group Pekao and group Pioneer companies (except for Baroda Pioneer Asset Management Company LTD and Baroda Pioneer Trustee Company PVT LTD) and (ii) of the FINO loans portfolio, following the fine-tuning of "Phase 1" of FINO Project. For further details on this topic please refer to the disclosure reported under table "A.1.2 Breakdown of credit exposures by portfolio and credit quality (gross and net values)" in Part E.

With reference to the assets and liabilities classified as held for sale, the amounts as at 31 December 2017 mainly refer to the initial recognition, based on the provisions of IFRS5, (i) of some loans portfolios, (ii) of certain properties and (iii) of the share in i-Faber S.p.A.

Regarding the figures relating to the assets groups classified as held for sale and the related liabilities, the amounts as at 31 December 2017 refer to Pioneer group's companies, i.e. Baroda Pioneer Asset Management Company LTD and Baroda Pioneer Trustee Company PVT LTD.

It should be noted that the evaluations of Pioneer group, for the abovementioned companies not yet disposed (whose disposal is expected to occur in the first half of 2018) were carried out based on IFRS5 (measurement at the lower of carrying amount and fair value less costs to sell). In this valuation process the net assets referring to these companies is kept as recognised with its own book value since the fair value is consistently higher.

Valuations at fair value were classified according to a hierarchy of levels reflecting the significance of the valuations input for market disclosure purposes only. For further information see Part A - Accounting Policies - A.4 Information on fair value.

### Section 15 - Other assets - Item 150

#### 15.1 Other assets: breakdown

(€'000)

ITEMS/VALUES	AMOUNTS AS AT	
	12.31.2017	12.31.2016
Accrued income other capitalised income	92,240	383,709
Cash and other valuables held by cashier:	230,014	235,779
- current account cheques being settled, drawn on third parties	229,671	235,281
- current account cheques payable by group banks, cleared and in the process of being debited	343	498
- money orders, bank drafts and equivalent securities	-	-
- coupons, securities due on demand, revenue stamps and miscellaneous valuables	-	-
Interest and changes to be debited to:	133	135
- customers	133	135
- banks	-	-
Items in transit between branches not yet allocated to destination accounts	12,332	21,597
Items in processing	389,975	246,513
Items deemed definitive but not-attributable to other items:	1,521,623	1,233,102
- securities and coupons to be settled	1,430	591
- other transactions	1,520,193	1,232,511
Adjustments for unpaid bills and notes	264,164	166,798
Tax items other than those included in item 130	1,583,025	1,723,931
Loans in respect of share based payments	144,546	114,826
- loans to subsidiaries in respect of equity settled share based payments	144,546	114,826
- loans to subsidiaries in respect of cash settled share based payments	-	-
Other items	462,302	273,870
- leasehold improvements (on non-separable assets)	94,090	97,456
- items related to accidents and disputes pending (valued at their estimated realisation amount)	29,089	25,032
- other items	339,123	151,382
<b>Total</b>	<b>4,700,354</b>	<b>4,400,260</b>

# Part B - Balance Sheet - Liabilities

## Liabilities

### Section 1 - Deposits from banks - Item 10

#### 1.1 Deposits from banks: product breakdown

(€ '000)

TYPE OF TRANSACTIONS/VALUES	AMOUNTS AS AT	
	12.31.2017	12.31.2016
<b>1. Deposits from central banks</b>	<b>33,576,658</b>	<b>18,293,918</b>
<b>2. Deposits from banks</b>	<b>23,230,358</b>	<b>26,086,589</b>
2.1 Current accounts and demand deposits	4,826,878	3,981,725
2.2 Time deposits	3,812,805	3,055,966
2.3 Loans	14,249,826	18,703,373
2.3.1 repos	7,737,626	10,519,736
2.3.2 other	6,512,200	8,183,637
2.4 Liabilities in respect of commitments to repurchase treasury shares	-	-
2.5 Other liabilities	340,849	345,525
<b>Total</b>	<b>56,807,016</b>	<b>44,380,507</b>
Fair value - level 1	-	-
Fair value - level 2	13,896,046	38,128,886
Fair value - level 3	43,033,573	6,037,515
<b>Total fair value</b>	<b>56,929,619</b>	<b>44,166,401</b>

The increase in deposits from central banks is due to the growth in TLTRO II facilities launched by the Governing Council of the European Central Bank with Decision (EU) 2016/810 (equal to €33 billion as at 31 December 2017).

Deposits from banks are not carried based at their fair value, which is only shown in order to meet disclosure requirements. Fair value measurements have been classified according to a hierarchy of levels reflecting the significance of the valuations input. For further information see Part A - Accounting Policies - A.4 Information on fair value.

#### 1.2 Breakdown of item 10 "Deposits from banks": subordinated debt

The list of all subordinated debt instruments is presented in Part F - Shareholders' Equity. The subordinated debt recognised in item "Deposits from banks" amounts to €67 million.

### Section 2 - Deposits from customers - Item 20

#### 2.1 Deposits from customers: breakdown by product

(€ '000)

TYPE OF TRANSACTIONS/GROUP COMPONENTS	AMOUNTS AS AT	
	12.31.2017	12.31.2016
1. Current accounts and demand deposits	154,551,338	146,751,735
2. Time deposits	1,584,116	2,551,661
3. Loans	35,885,701	42,042,397
3.1 repos	34,489,558	39,963,332
3.2 other	1,396,143	2,079,065
4. Liabilities in respect of commitments to repurchase treasury shares	-	-
5. Other liabilities	5,117,607	5,175,141
<b>Total</b>	<b>197,138,762</b>	<b>196,520,934</b>
Fair value - level 1	-	-
Fair value - level 2	37,732,119	43,710,307
Fair value - level 3	159,325,053	152,152,318
<b>Total fair value</b>	<b>197,057,172</b>	<b>195,862,625</b>

Deposits from customers are not carried at fair value, which is presented solely for the purpose of fulfilling financial disclosure requirements. Fair value measurements have been classified according to a hierarchy of levels reflecting the significance of the valuations input.

## Part B - Balance Sheet - Liabilities

The fair value of demand items was estimated to be equal to their net book value by exercising the option provided for by IFRS7.29. According to this assumption, demand items were classified as level 3 in the fair value hierarchy. For further information see Part A - Accounting Policies - A.4 Information on fair value.

**2.2 Breakdown of item 20 “Deposits from customers”: subordinated debt**

Item “Deposit from customers” includes subordinated debt in the amount of €21 million.

## Section 3 - Debt securities in issue - Item 30

**3.1 Debt securities in issue: breakdown by product**

(€ '000)

TYPE OF SECURITIES/VALUES	AMOUNTS AS AT 12.31.2017				AMOUNTS AS AT 12.31.2016			
	BOOK VALUE	FAIR VALUE			BOOK VALUE	FAIR VALUE		
		LEVEL 1	LEVEL 2	LEVEL 3		LEVEL 1	LEVEL 2	LEVEL 3
<b>A. Listed securities</b>								
1. Bonds	57,334,101	30,184,820	30,285,452	107	75,016,905	36,926,498	39,975,082	107
1.1 structured	1,942,982	-	1,964,090	-	4,495,477	1,098,191	3,424,001	-
1.2 other	55,391,119	30,184,820	28,321,362	107	70,521,428	35,828,307	36,551,081	107
2. Other securities	7,611,531	-	1,313,860	6,316,809	8,109,900	-	3,892,925	4,252,605
2.1 structured	127,570	-	144,446	-	189,041	-	225,762	-
2.2 other	7,483,961	-	1,169,414	6,316,809	7,920,859	-	3,667,163	4,252,605
<b>Total</b>	<b>64,945,632</b>	<b>30,184,820</b>	<b>31,599,312</b>	<b>6,316,916</b>	<b>83,126,805</b>	<b>36,926,498</b>	<b>43,868,007</b>	<b>4,252,712</b>
<b>Total Level 1, Level 2 and Level 3</b>				<b>68,101,048</b>				<b>85,047,217</b>

Sub-items “1.1 structured” of bonds and “2.1. structured” of other securities totally amount to €2,071 million and represent 3% of the total. They mainly relate to interest-rate linked instruments with highly correlated derivative component, identified in accordance with the Mifid classification rules.

Issued bonds reduce due to joint effect of maturities and new issuances and as a consequence of buy-backs realised in the period.

Fair value measurements solely for financial disclosure purposes only are classified according to a hierarchy of levels reflecting the significance of the inputs used.

For further information see Part A - Accounting Policies - A.4 Information on fair value.

**3.2 Breakdown of item 30 “Debt securities in issue”: subordinated debt securities**

This item includes subordinated securities in the amount of €11,591 million.

**3.4 Breakdown of item 30 “Debt securities in issue”: Covered Bond**

At 31 December 2017, a total of 28 series of covered bonds (OBG) were issued for the two programmes for a total of €26,456 million, of which €14,350 million held within UniCredit S.p.A.



## Part B - Balance Sheet - Liabilities

## Section 5 - Financial liabilities at fair value through profit or loss - Item 50

## 5.1 Financial liabilities at fair value through profit or loss: breakdown by product

(€ '000)

TYPE OF TRANSACTIONS/VALUES	AMOUNTS AS AT 12.31.2017				AMOUNTS AS AT 12.31.2016					
	NOMINAL VALUE	FAIR VALUE			FAIR VALUE(*)	NOMINAL VALUE	FAIR VALUE			FAIR VALUE(*)
		LEVEL 1	LEVEL 2	LEVEL 3			LEVEL 1	LEVEL 2	LEVEL 3	
<b>1. Deposits from banks</b>	-	-	-	-	-	-	-	-	-	
1.1 Structured	-	-	-	-	X	-	-	-	X	
1.2 Other	-	-	-	-	X	-	-	-	X	
<b>2. Deposits from</b>	-	-	-	-	-	-	-	-	-	
2.1 Structured	-	-	-	-	X	-	-	-	X	
2.2 Other	-	-	-	-	X	-	-	-	X	
<b>3. Debt securities</b>	<b>2,698,887</b>	-	<b>2,737,625</b>	-	<b>2,678,873</b>	<b>2,053,774</b>	-	<b>2,102,895</b>	-	<b>2,072,224</b>
3.1 Structured	2,698,887	-	2,737,625	-	X	2,053,774	-	2,102,895	-	X
3.2 Other	-	-	-	-	X	-	-	-	-	X
<b>Total</b>	<b>2,698,887</b>	-	<b>2,737,625</b>	-	<b>2,678,873</b>	<b>2,053,774</b>	-	<b>2,102,895</b>	-	<b>2,072,224</b>

<b>Total Level 1, Level 2 and Level 3</b>	<b>2,737,625</b>	<b>2,102,895</b>
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Note:

(\*) Fair value: evaluated without changes in fair value due to issuer's merit credit from the issuance date.

Item "3.1 Debt securities - Structured" includes "Certificates" (structured debt securities) issued by UniCredit S.p.A. starting from the first quarter of 2016 and €471 million of "mandatorily-settled secured equity linked certificates" (so-called Mando) referred to the disposal of Bank Pekao S.A. These securities are classified as measured at fair value through profit or loss their embedded derivative component not being separable.

## Section 6 - Hedging derivatives - Item 60

## 6.1 Hedging derivatives: breakdown by type of hedging and by levels

(€ '000)

	AMOUNTS AS AT 12.31.2017				AMOUNTS AS AT 12.31.2016			
	FAIR VALUE			NOTIONAL AMOUNT	FAIR VALUE			NOTIONAL AMOUNT
	LEVEL 1	LEVEL 2	LEVEL 3		LEVEL 1	LEVEL 2	LEVEL 3	
<b>A. Financial derivatives</b>	<b>29,210</b>	<b>4,529,110</b>	-	<b>256,709,902</b>	<b>11,782</b>	<b>6,115,078</b>	<b>15</b>	<b>206,208,512</b>
1) Fair value	29,210	4,368,438	-	250,216,724	11,782	5,899,779	15	197,584,544
2) Cash flows	-	160,672	-	6,493,178	-	215,299	-	8,623,968
3) Net investment in foreign subsidiaries	-	-	-	-	-	-	-	-
<b>B. Credit derivatives</b>	-	-	-	-	-	-	-	-
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
<b>Total</b>	<b>29,210</b>	<b>4,529,110</b>	-	<b>256,709,902</b>	<b>11,782</b>	<b>6,115,078</b>	<b>15</b>	<b>206,208,512</b>

<b>Total Level 1, Level 2 e Level 3</b>	<b>4,558,320</b>	<b>6,126,875</b>
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## 6.2 Hedging derivatives: breakdown by hedged items and risk type

(€ '000)

TRANSACTIONS/HEDGE TYPES	AMOUNTS AS AT 12.31.2017						CASH FLOWS		FOREIGN INVESTMENTS
	FAIR VALUE					MACRO-HEDGE	MICRO-HEDGE	MACRO-HEDGE	
	INTEREST RATE RISK	CURRENCY RISK	CREDIT RISK	PRICE RISK	MULTIPLE RISKS				
1. Available-for-sale financial assets	965,814	207	-	-	-	X	-	X	X
2. Loans and receivables	-	-	-	X	-	X	-	X	X
3. Held to maturity investments	X	-	-	X	-	X	-	X	X
4. Portfolio	X	X	X	X	X	2,947,465	X	159,655	X
5. Others	-	-	-	-	-	X	-	X	-
<b>Total assets</b>	<b>965,814</b>	<b>207</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,947,465</b>	<b>-</b>	<b>159,655</b>	<b>-</b>
1. Financial liabilities	-	-	-	X	-	X	-	X	X
2. Portfolio	X	X	X	X	X	484,162	X	1,017	X
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>484,162</b>	<b>-</b>	<b>1,017</b>	<b>-</b>
1. Highly probable transactions (CFH)	X	X	X	X	X	X	-	X	X
2. Financial assets and liabilities portfolio	X	X	X	X	X	-	X	-	-

## Section 7 - Changes in fair value of portfolio hedged financial liabilities - Item 70

### 7.1 Changes to macro-hedged financial liabilities

(€ '000)

CHANGES TO MACRO-HEDGED LIABILITIES	AMOUNTS AS AT	
	12.31.2017	12.31.2016
1. Positive changes to financial liabilities	2,071,614	3,099,026
2. Negative changes to financial liabilities	(351,243)	(305,828)
<b>Total</b>	<b>1,720,371</b>	<b>2,793,198</b>

### 7.2 Liabilities subject to macro-hedging of interest rate risk: breakdown

(€ '000)

HEDGED LIABILITIES	AMOUNTS AS AT	
	12.31.2017	12.31.2016
1. Deposits	-	-
2. Debt securities in issue	-	-
3. Portfolio	81,907,262	79,512,573
<b>Total</b>	<b>81,907,262</b>	<b>79,512,573</b>

## Section 8 - Tax liabilities - Item 80

See Section 13 of Assets.

## Section 9 - Liabilities included in disposal groups classified as held for sale - Item 90

See Section 14 of Assets.

## Part B - Balance Sheet - Liabilities

## Section 10 - Other liabilities - Item 100

## 10.1 Other liabilities: breakdown

(€ '000)

ITEM/VALUES	AMOUNTS AS AT	
	12.31.2017	12.31.2016
Liabilities in respect of financial guarantees issued	5,724	10,042
Impairment: of financial guarantees issued, of credit derivatives, of irrevocable commitments to distribute funds	305,493	494,850
Obligations for irrevocable commitments to distribute funds	-	-
Accrued expenses other than those to be capitalised for the financial liabilities concerned	100,642	85,472
Share Based Payment classified as liabilities under IFRS2	3,286	4,233
Other liabilities due to other staff	1,739,619	975,523
Interest and amounts to be credited to:	-	-
- customers	-	-
- banks	-	-
Items in transit between branches and not yet allocated to destination accounts	35,921	31,597
Available amounts to be paid to others	-	-
Items in processing	384,143	675,851
Entries related to securities transactions	255,156	73,404
Items deemed definitive but not attributable to other lines:	3,856,070	3,526,809
- accounts payable - suppliers	600,644	626,016
- other entries	3,255,426	2,900,793
Liabilities for miscellaneous entries related to tax collection service	-	-
Adjustments for unpaid portfolio entries	-	-
Tax items different from those included in item 80	969,957	1,252,100
Other entries	167,812	160,849
<b>Total</b>	<b>7,823,823</b>	<b>7,290,730</b>



## Section 11 - Provision for employee severance pay - Item 110

The "TFR" provision for Italy-based employee benefits is to be constructed as a "post-retirement defined benefit". It is therefore recognised on the basis of an actuarial estimate of the amount of benefit accrued by employees discounted to present value. This benefit is calculated by an external actuary using "projected unit credit" method (see Part A.2 - Main Items of the Accounts).

### 11.1 Provision for employee severance pay: annual change

(€ '000)

	CHANGES IN	
	2017	2016
<b>A. Opening balances</b>	<b>1,019,713</b>	<b>1,028,374</b>
<b>B. Increases</b>	<b>14,971</b>	<b>63,213</b>
B.1 Provisions for the year	12,946	17,910
B.2 Other increases	2,025	45,303
<i>of which: business combinations</i>	8	63
<b>C. Reductions</b>	<b>206,234</b>	<b>71,874</b>
C.1 Severance payments	184,995	67,237
C.2 Other decreases	21,239	4,637
<i>of which: business combinations</i>	276	4,135
<b>D. Closing balance</b>	<b>828,450</b>	<b>1,019,713</b>

### 11.2 Provisions for employee severance pay: other information

(€ '000)

	CHANGES IN	
	2017	2016
<b>Cost Recognised in P&amp;L:</b>	<b>12,946</b>	<b>17,910</b>
- Current Service Cost	-	-
- Interest Cost on the DBO	12,946	17,910
- Settlement (gains)/losses	-	-
- Past Service Cost	-	-
<b>Remeasurement Effects (Gains) Losses Recognised in OCI</b>	<b>(20,408)</b>	<b>43,082</b>
<b>Annual weighted average assumptions</b>		
- Discount rate	1.45%	1.25%
- Price inflation	1.40%	1.10%

The financial duration of the commitments is 8.2 years; the balance of the negative Revaluation reserves net of tax changed from -€119,958 thousand at 31 December 2016 to -€105,195 thousand at 31 December 2017.

A change of -25 basis points in the discount rate would result in an increase in liabilities of €17,265 thousand (+2.08%); an equivalent increase in the rate, on the other hand, would result in a reduction in liabilities of €16,871 thousand (-2.04%). A change of -25 basis points in the inflation rate would result in a reduction in liabilities of €10,490 thousand (-1.27%); an equivalent increase in the rate, on the other hand, would result in an increase in liabilities of €10,613 thousand (+1.28%).

## Part B - Balance Sheet - Liabilities

## Section 12 - Provisions for risks and charges - Item 120

## 12.1 Provisions for risks and charges: breakdown

(€ '000)

ITEMS/VALUES	AMOUNTS AS AT	
	12.31.2017	12.31.2016
<b>1. Pensions and other post-retirement benefit obligations</b>	<b>77,312</b>	<b>373,189</b>
<b>2. Other provisions for risks and charges</b>	<b>1,765,693</b>	<b>3,034,139</b>
2.1 Legal disputes	538,982	571,021
2.2 Staff expenses	383,191	1,308,377
2.3 Other	843,520	1,154,741
<b>Total</b>	<b>1,843,005</b>	<b>3,407,328</b>

To cover liabilities that may result from pending lawsuits (excluding labor disputes, tax cases or credit recovery actions), UniCredit S.p.A. has set aside a provision for risks and charges of €478 million at 31 December 2017 (€513 million at 31 December 2016). More details are included in Part E - Information on risks and risks management policies.

Decrease in sub-item 1. Pensions and other post-retirement benefits obligations arise from constitution of segregated plan assets in finalising the restructuring of Italian defined-benefit Pension Plans; for additional information refer to Section 12.3 - 1. Description of the funds and related risks. Decrease in sub-item "2.2 Staff expenses" reflects reversals (allocated in "Other liabilities" when subject to deferred liquidation) relating to the implementation of the Strategic Plan 2016-2019.

## 12.2 Provisions for risks and charges: annual changes

(€ '000)

ITEMS/COMPONENTS	CHANGES IN 2017		
	PENSION AND POST-RETIREMENT BENEFIT OBLIGATIONS	OTHER PROVISIONS	TOTAL
<b>A. Opening balance</b>	<b>373,189</b>	<b>3,034,139</b>	<b>3,407,328</b>
<b>B. Increases</b>	<b>5,647</b>	<b>498,556</b>	<b>504,203</b>
B.1 Provisions for the year	978	494,109	495,087
B.2 Changes due to the passing time	1,259	130	1,389
B.3 Differences due to discount-rate changes	-	374	374
B.4 Other adjustments	3,410	3,943	7,353
<i>of which: business combinations</i>	-	2,858	2,858
<b>C. Decreases</b>	<b>301,524</b>	<b>1,767,002</b>	<b>2,068,526</b>
C.1 Use during the year	1,924	750,341	752,265
C.2 Differences due to discount-rate changes	-	496	496
C.3 Other adjustments	299,600	1,016,165	1,315,765
<i>of which: business combinations</i>	34	74	108
<b>D. Closing balance</b>	<b>77,312</b>	<b>1,765,693</b>	<b>1,843,005</b>

## Note:

(\*) Of which Provisions for defined-benefit company pensions for €77,106 thousand.

More details about annual changes for pensions and post-retirement benefit obligation are presented in Section 12.3 - Pensions and other post-retirement defined benefit obligations.

## 12.3 Pensions and other post-retirement defined-benefit obligations

### 1. Description of the funds and related risks

In respect of Pensions and other post-retirement benefit obligations, the Annexes provide details of Internal Fund movements and include statements of changes in funds with segregated assets pursuant to Art.2117 of the Italian Civil Code, as well as explanatory notes thereto.

According to IAS19, obligations arising from defined-benefit plans are determined using the "projected unit credit" method, while segregated assets are measured at fair value. The balance sheet obligation is the result of the deficit/surplus (i.e. the difference between obligations and assets) net of any impacts of the asset ceiling; actuarial gains and losses are recognised in shareholders' equity and shown in a specific item of revaluation reserves in the financial year in which they are recorded.

The discount rate is determined, depending on the currency of denomination of the commitments and the maturity of the liability, by reference to market yields at the balance sheet date on a basket of high quality corporate bonds.

In light of evolving common interpretation about "high quality corporate bonds" identification and persisting interest rates decreasing trend, UniCredit refined its Discount Rate setting methodology by limiting the number of "investment grade" bonds whose rating is lower than AA (No.14 securities ranging in 15-30 years maturity), for which an adjustment is made to reduce the excess-return. In addition, a Nelson Siegel methodology has been applied in modelling the yield-curve expressed by the basket of securities (adjusted above 25 years in order to stick the long-term maturity segments of the curve to the Euribor implied-forward rate).

On 2 January 2017 UniCredit S.p.A. finalised the restructuring of the Italian pension funds through transferring the residual position (for beneficiaries who did not subscribe to the capitalisation of pensions completed in 2016) with constitution of segregated plan assets to the Group's Retirement Pension Funds equal to €294 million.

The balance of the negative Revaluation reserves net of tax changed from -€92,505 thousand at 31 December 2016 to -€91,637 thousand at 31 December 2017.

(€ '000)

2. CHANGES OF NET DEFINED BENEFIT LIABILITY/ASSET AND ANY REIMBURSEMENT RIGHTS AS OF THE PERIOD END DATE		
NET DEFINED BENEFIT LIABILITY/ASSET AS OF THE PERIOD END DATE	12.31.2017	12.31.2016
Defined benefit obligation	378,329	405,740
Fair value of assets	(301,223)	(33,227)
<b>Deficit/(Surplus)</b>	<b>77,106</b>	<b>372,513</b>
Irrecoverable surplus (effect of asset ceiling)	-	-
<b>Net defined benefit liability/(asset) as of the period end date</b>	<b>77,106</b>	<b>372,513</b>

(€ '000)

2.1 CHANGES IN DEFINED BENEFIT OBLIGATIONS		
	12.31.2017	12.31.2016
Defined benefit obligation as of the prior period end date	405,740	731,505
Current service cost	977	806
Settlement (gain)/loss	-	(56,568)
Past service cost	-	-
Interest cost on the defined benefit obligation	5,748	13,147
Net actuarial (gain)/loss	877	19,320
Plan participants' contributions	12	-
Disbursements from plan assets	(32,911)	-
Disbursements directly paid by the employer	(1,454)	(37,096)
Settlements	-	(263,287)
Other changes on defined benefit obligation	(660)	(2,087)
<b>Total defined benefit obligations as of the period end date</b>	<b>378,329</b>	<b>405,740</b>

## Part B - Balance Sheet - Liabilities

(€ '000)

2.2 CHANGES TO PLAN ASSETS	12.31.2017	12.31.2016
Fair value of plan assets as of the prior period end date	33,227	32,285
Interest Income on Plan Assets	4,489	942
Return on plan assets greater/(less) than discount rate	1,959	-
Employer contributions	294,447	-
Disbursements from plan assets	(32,911)	-
Settlements	-	-
Other changes on plan assets	12	-
<b>Total fair value of plan assets as of the period end date</b>	<b>301,223</b>	<b>33,227</b>

(€ '000)

3. INFORMATION ABOUT PLAN ASSETS	12.31.2017	12.31.2016
1. Equities	32,186	16,889
2. Bonds	191,523	7,821
3. Units in investment funds	-	1,235
4. Properties	1,865	1,894
5. Derivative instruments	-	-
6. Others	75,649	5,388
<b>Total</b>	<b>301,223</b>	<b>33,227</b>

4. PRINCIPAL ACTUARIAL ASSUMPTIONS	12.31.2017	12.31.2016
	%	%
Discount rate	1.60	1.48
Expected return on plan assets	1.60	1.48
Rate of increase in future compensation and vested rights	1.15	2.57
Rate of increase in pension obligations	1.21	1.10
Expected inflation rate	1.67	1.37

5. INFORMATION ON AMOUNT, TIMING AND UNCERTAINTY OF CASH FLOWS	12.31.2017
- Impact of changes in financial/demographic assumptions on DBOs	
<b>a. Discount rate</b>	
a1. -25 basis points	9,344
	2.47%
a2. +25 basis points	(8,898)
	-2.35%
<b>b. Pensions increase rate</b>	
b1. -25 basis points	(5,569)
	-1.47%
b2. +25 basis points	5,775
	1.53%
<b>c. Mortality</b>	
c1. Survival rate +1 year	20,008
	5.29%
- Weighted average duration (years)	9.60

## 12.4 Provisions for risks and charges - other provisions

(€ '000)

	AMOUNTS AS AT	
	12.31.2017	12.31.2016
<b>2.3 Other provisions for risks and charges - other</b>		
Out-of-court settlements, accidents and other claims	9,064	15,166
Tax Disputes	46,924	53,857
Guarantees and other risks connected with equity investment	168,112	590,847
Other funds	619,420	494,871
<b>Total</b>	<b>843,520</b>	<b>1,154,741</b>

In connection to commitments towards the subsidiary UniCredit Leasing S.p.A. to cover its losses, in 2016 a specific provision for €470 million has been created between provisions for "Guarantees and other risks connected with equity investments", entirely utilised in 2017.

## Section 13 - Redeemable shares - Item 140

No data to be disclosed in this section.

## Section 14 - Shareholders' Equity - Items 130, 150, 160, 170, 180, 190 and 200

Further information about Shareholders' Equity are disclosed in Part F - Shareholders' Equity.

### 14.1 "Share capital" and "treasury shares" - breakdown

(€ '000)

	12.31.2017		12.31.2016	
	ISSUED SHARES	UNDERWRITTEN SHARES	ISSUED SHARES	UNDERWRITTEN SHARES
<b>A. Share capital</b>				
A.1 ordinary shares	20,878,182	-	20,838,376	-
A.2 saving shares	2,368	-	8,517	-
<b>Total A</b>	<b>20,880,550</b>	<b>-</b>	<b>20,846,893</b>	<b>-</b>
<b>B. Treasury Shares</b>				
B.1 ordinary shares	(2,440)	-	(2,440)	-
B.2 savings shares	-	-	-	-
<b>Total (B)</b>	<b>(2,440)</b>	<b>-</b>	<b>(2,440)</b>	<b>-</b>

In 2017 share capital, which at 31 December 2016 was represented by No.6,177,818,177 ordinary shares and No.2,524,896 savings shares with no per-share face value, changed due to the reasons illustrated in paragraph "Capital Strengthening concerning share capital" of the "Report on Operations" and summarised below.

On 12 January 2017 the Extraordinary Shareholders' Meeting resolved a reverse stock split of ordinary and savings shares based on a ratio of 1 new ordinary or savings share for every 10 existing ordinary or savings shares.

In addition, share capital rose from €20,846,893 thousand at the end of 2016 to €20,880,550 thousand following:

- paid-up share capital increase resolved by the Extraordinary Shareholders' Meeting on 12 January 2017 through the issuance of No.1.606.876.817 ordinary shares for an amount of €16,069 thousand;
- free share capital increases resolved by the Board of Directors' meeting of 13 March 2017, executed through the concurrent withdrawal from the specifically constituted "reserves relating to the medium-term incentive programme for Group staff", which resulted in the issue of No.1,034,172 ordinary shares for an amount of €17,588 thousand.

As a result of the above at 31 December 2017, the share capital is represented by No.2,225,692,806 ordinary shares and No.252,489 savings shares with no per-share face value.

The number of treasury shares outstanding was 4,760 ordinary shares, changed compared to 2016 only for the effect of the above-mentioned reverse stock split.

## Part B - Balance Sheet - Liabilities

## 14.2 Share capital - number of shares: annual changes

ITEMS/TYPE	CHANGES IN 2017		TOTAL
	ORDINARY	OTHER (SAVINGS)	
<b>A. Issued shares as at the beginning of the year</b>	<b>6,177,818,177</b>	<b>2,524,896</b>	<b>6,180,343,073</b>
- fully paid	6,177,818,177	2,524,896	6,180,343,073
- related to "usufrutto" contract	96,756,406	-	96,756,406
- other	6,081,061,771	2,524,896	6,083,586,667
- not fully paid	-	-	-
A.1 Treasury shares (-)	(47,600)	-	(47,600)
A.2 Shares outstanding: opening balance	6,177,770,577	2,524,896	6,180,295,473
<b>B. Increases</b>	<b>1,607,910,989</b>	<b>-</b>	<b>1,607,910,989</b>
B.1 New issues	1,607,910,989	-	1,607,910,989
- against payment	1,606,876,817	-	1,606,876,817
- business combinations	-	-	-
- bonds converted	-	-	-
- warrants exercised	-	-	-
- other	1,606,876,817	-	1,606,876,817
- free	1,034,172	-	1,034,172
- to employees	1,034,172	-	1,034,172
- to directors	-	-	-
- other	-	-	-
B.2 Sales of treasury shares	-	-	-
B.3 Other changes	-	-	-
<b>C. Decreases</b>	<b>5,559,993,520</b>	<b>2,272,407</b>	<b>5,562,265,927</b>
C.1 Cancellation	-	-	-
C.2 Purchase of treasury shares	-	-	-
C.3 Business transferred	-	-	-
C.4 Other changes	5,559,993,520	2,272,407	5,562,265,927
<b>D. Shares outstanding: closing balance</b>	<b>2,225,688,046</b>	<b>252,489</b>	<b>2,225,940,535</b>
D.1 Treasury shares (+)	4,760	-	4,760
D.2 Shares outstanding as at the end of the year	2,225,692,806	252,489	2,225,945,295
- fully paid	2,225,692,806	252,489	2,225,945,295
- related to "usufrutto" contract	9,675,640	-	9,675,640
- other	2,216,017,166	252,489	2,216,269,655
- not fully paid	-	-	-

## Notes:

(1) The usufruct agreement relating to the No.9,675,640 shares (issued in the context of the January 2009 capital increase) provides for Euribor-linked discretionary payments contingent on the payment of dividends on ordinary and/or savings shares. The voting right cannot be exercised on these shares.

(2) Item Other changes reflect reverse stock split of shares based on a ratio of 1 new ordinary or savings share for every 10 existing ordinary or savings shares.

## 14.3 Capital: other information

Pursuant to the resolution passed by the Extraordinary Shareholders' Meeting on 15 December 2011, ordinary and savings shares have no face value.

For specific details about the Savings shares, see Artt.5, 7 and 32 of the articles of Association of UniCredit S.p.A.

## 14.4 Reserves from allocation of profit: other information

(€ '000)

	AMOUNTS AS AT	
	12.31.2017	12.31.2016
Legal Reserve(*)	1,517,514	1,517,514
Statutory Reserve	679,464	840,018
Other Reserves	569,268	795,267
<b>Total</b>	<b>2,766,246</b>	<b>3,152,799</b>

## Note:

(\*) The Legal reserve includes also €2,683,391 thousand constituted, as resolved by the approval of the Ordinary Shareholders' Meeting of 11 May 2013, 13 May 2014 and 14 April 2016 with the withdrawal from the Share premium Reserve and therefore it is not classified among Reserves from allocation of profit.

Regarding provisions included in article 2427, paragraph 22-septies of the Italian Civil Code, refer to the specific Board of Directors' report.

The following table, in accordance with article 2427, paragraph 7-bis, of the Italian Civil Code, provides details on the origin, possible uses and availability of distribution of Shareholders' Equity, as well as the summary of its use in the three previous fiscal years.

### Breakdown of Shareholders' Equity (with indication of availability and distribution)

ITEMS	AMOUNT	PERMITTED USES <sup>(*)</sup>	AVAILABLE PORTION	SUMMARY OF USE IN THE THREE PREVIOUS FISCAL YEARS	
				TO COVER LOSSES	OTHER REASONS
Share capital	20,880,550	-	-		
Share premium	13,399,799	A, B, C <sup>(1)</sup>	13,399,799	12,901,582	2,658,789 <sup>(2)</sup>
<b>Reserves:</b>	<b>7,798,690</b>				
Legal reserve	4,200,905	B <sup>(3)</sup>	4,200,905	-	-
Reserve for treasury shares	2,440	-	-	-	-
Statutory reserves	679,464	A, B, C	679,464	-	537,840 <sup>(4)</sup>
Reserves arising out of transfer of assets	420,380	A, B, C <sup>(5)</sup>	420,380	-	56,710 <sup>(14)</sup>
Reserves related to the medium-term incentive programme for Group staff	105,031	- <sup>(6)</sup>	-	-	113,006 <sup>(15)</sup>
Reserve related to equity-settled plans	644,884	-	-	-	-
Reserve related to business combinations (IFRS3)	2,093,451	A, B, C <sup>(7)</sup>	2,093,451	-	25,173 <sup>(14)</sup>
Reserve related to business combinations within the Group	222,892	A, B <sup>(8)</sup>	222,892	-	263,639 <sup>(14)</sup>
Reserve pursuant to Art.6, paragraph 2 Legislative Decree 38/2005	20	B <sup>(9)</sup>	20	-	-
Other reserves	43,266	A, B, C <sup>(10)</sup>	43,266	-	29,193 <sup>(14)</sup>
Negative components of Shareholders' Equity	(614,043)	<sup>(11)</sup>	(614,043)	-	-
<b>Revaluation reserves:</b>	<b>585,548</b>				
Monetary equalisation reserve under L.576/75	4,087	A, B, C <sup>(12)</sup>	4,087	-	-
Monetary revaluation reserve under L.72/83	84,658	A, B, C <sup>(12)</sup>	84,658	-	-
Asset revaluation reserve under L.408/90	28,965	A, B, C <sup>(12)</sup>	28,965	-	-
Property revaluation reserve under L.413/91	159,310	A, B, C <sup>(12)</sup>	159,310	-	-
Available-for-sale financial assets reserve	537,118	- <sup>(13)</sup>	-	-	-
Cash-flow hedges reserve	(32,301)	- <sup>(13)</sup>	-	-	-
Reserve for actuarial gains (losses) on employee defined - benefit plans	(196,289)	- <sup>(13)</sup>	-	-	-
<b>Total</b>	<b>42,664,587</b>		<b>20,723,154</b>	<b>12,901,582</b>	<b>3,684,350</b>
<b>Portion not allowed in distribution<sup>(**)</sup></b>			<b>5,808,323</b>		
<b>Remaining portion available for distribution<sup>(***)</sup></b>			<b>14,914,831</b>		

#### Notes:

(\*) A: for capital increase; B: to cover losses; C: distribution to shareholders.

(\*\*) Includes the part of Share premium (see note 1), the remaining part is distributable because the legal reserve is at the level of one-fifth of the share capital, as per Art.2430 of the Italian Civil Code.

(\*\*\*) The distributable amount is net of negative items.

- (1) The amount of Share premium reserve generated as a result of the business combination with Capitalia exceeds the shareholders' equity of the absorbed company (€8,564,500 thousand) and includes €8,185,574 thousand considered as available for distribution following the impairment losses on goodwill, intangible assets and equity investments and recognised on each occasion through profit or loss. The remaining amount of €378,926 thousand is considered non distributable.
- (2) Reserve used in the last three years to cover the losses of 2015 (€1,441,449 thousand) and 2016 (€11,460,133 thousand); to supplement the legal reserve (€150,238 thousand) and coverage negative reserves (€2,508,551 thousand).
- (3) Reserve available to cover losses only after the utilisation of other reserves, except for the reserves pursuant to article 6, paragraph 2, of Legislative Decree 38/2005. The reserve includes €2,683,391 thousand taken from Share Premium as approved by the Ordinary Shareholders' Meetings of 11 May 2013, 13 May 2014 and 14 April 2016.
- (4) Reserve used for €377,286 thousand in 2016 to pay scrip dividend for 2015 by the Shareholders' Meeting resolution of 14 April 2016, in 2017 for €100,554 thousand to cover negative reserves following the resolution of the Ordinary Shareholders' Meetings of 20 April 2017 and €60,000 thousand for allocation to the specific reserve connected to the personnel incentive plan.
- (5) The amount includes €214,747 thousand which is distributable according to the procedure established Art 2445 of the Italian Civil Code; if the reserve is utilised to cover losses, profits may not be distributed until the reserve is restored to its full amount or is reduced by the corresponding amount by resolution extraordinary Shareholder's Meeting resolution, without application of the provisions of the second and third paragraphs of article 2445 of the Italian Civil Code.
- (6) Allocation constraints to render the reserve available and distributable may be approved by the shareholders' meeting.
- (7) The Reserve from business combination (IFRS3) is considered available to cover losses, for capital increase and distribution to shareholders for €1,087,887 thousand equal to net value adjustments due to the decrease in UniCredit Bank AG and UniCredit Bank Austria AG investments covered without using the reserve in question. The remaining portion of the Reserve from business combinations (IFRS3) is currently considered to be conservatively available only for the coverage of losses or the portion of losses deriving from write-downs of the investments and/or goodwill that generated it.
- (8) The outstanding balance refers to the positive reserve arising out of transfer of a business unit within the group and not distributable until the surplus that generated it will be realised through a transaction with third parties.
- (9) If this Reserve is used to cover losses, profits cannot be distributed until this Reserve has been replenished by allocating profits from future years.
- (10) Other reserves include the reserve pursuant to Art.19 of Legislative Decree 87/92 equal to €16 thousand non-distributable.
- (11) Negative items of shareholders' equity affect the availability and distributability of positive reserves of the shareholders' equity.
- (12) If these reserves are utilised to cover losses, profits may not be distributed until the reserve is restored to its full amount or is reduced by the corresponding amount by resolution of the Extraordinary Shareholders' Meeting Resolution, without application of the provisions of the second and third paragraphs of article 2445 of the Italian Civil Code. If the reserve is not recognised under share capital, it may only be reduced by resolution adopted in application of the provisions of the second and third paragraphs of article 2445 of the Italian Civil Code.
- (13) The reserve, when positive, is not available pursuant to article 6 of Legislative Decree 38/2005.
- (14) Coverage of negative components items of shareholders' equity as per Shareholders' Meeting resolution of 20 April 2017.
- (15) For capital increase with respect to allocation of performance shares connected to the personnel incentive plan.

## Part B - Balance Sheet - Liabilities

In detail the composition of Other negative components of Shareholders' Equity:

ITEMS	12.31.2017
Reserve arising out of equity instrument "AT1" and cashes	(200,093)
Reserve for capital increase costs	(297,760)
Reserve for the unsustainable amount of Deferred Tax Assets relating to tax losses carried forward linked to shareholders' equity items	(72,041)
Reserve arising out share based payments cash settlement	(3,598)
Reserve relating business combination within the Group	(37,285)
ESOP share price reserve and reserve arising from reverse share split	(3,266)
<b>Total</b>	<b>(614,043)</b>

Item "Reserve relating to business combinations within the Group" includes the negative differences arising from the merger of Buddy Servizi Molecolari S.p.A. (€6,873 thousand) and Pioneer Global Asset Management (PGAM) S.p.A. (€30,412 thousand).

## Other Information

## 1. Guarantees given and commitments

(€ '000)

TRANSACTIONS	AMOUNTS AS AT	
	12.31.2017	12.31.2016
<b>1) Financial guarantees given to</b>	<b>18,891,623</b>	<b>19,417,672</b>
a) Banks	7,449,207	8,433,527
b) Customers	11,442,416	10,984,145
<b>2) Commercial guarantees given to</b>	<b>21,041,327</b>	<b>20,572,967</b>
a) Banks	2,121,967	2,451,316
b) Customers	18,919,360	18,121,651
<b>3) Other irrevocable commitments to disburse funds</b>	<b>34,025,878</b>	<b>30,204,804</b>
a) Banks:	5,414,776	3,105,653
i) usage certain	4,498,615	2,143,254
ii) usage uncertain	916,161	962,399
b) Customers:	28,611,102	27,099,151
i) usage certain	7,142,884	4,718,776
ii) usage uncertain	21,468,218	22,380,375
<b>4) Underlying obligations for credit derivatives: sales of protection</b>	<b>-</b>	<b>-</b>
<b>5) Assets used to guarantee others' obligations</b>	<b>3,284</b>	<b>3,272</b>
<b>6) Other commitments</b>	<b>1,171,298</b>	<b>368,499</b>
<b>Total</b>	<b>75,133,410</b>	<b>70,567,214</b>

## 2. Assets used to guarantee own liabilities and commitments

(€ '000)

PORTFOLIOS	AMOUNTS AS AT	
	12.31.2017	12.31.2016
1. Financial assets held for trading	1,013,178	3,096,882
2. Financial assets designated at fair value	-	1,035
3. Financial assets available for sale	35,386,206	34,984,068
4. Financial assets held to maturity	746,713	739,453
5. Loans and receivables with banks	1,632,630	830,591
6. Loans and receivables with customers	51,567,031	46,400,123
7. Property, plant and equipment	-	-

Deposits from banks include €33,441 million relating to Banca d'Italia's refinancing operations collateralised by credit value amounting to €12,730 million and securities nominal value amounting to €24,019 million.

Of these, since the securities not recognised on balance-sheet represent repurchased or retained UniCredit S.p.A.'s financial liabilities, they amount to nominal €18,111 million.



### Security borrowing transactions collateralised by securities or not collateralised

(€ '000)

LENDER BREAKDOWN	AMOUNTS AS AT 12.31.2017			
	AMOUNTS OF THE SECURITIES BORROWED/TRANSACTION PURPOSES			
	GIVEN AS COLLATERAL IN OWN FUNDING TRANSACTIONS	SOLD	SOLD IN REPO TRANSACTIONS	OTHER PURPOSES
A. Banks	-	-	-	-
B. Financial companies	-	-	-	-
C. Insurance companies	-	-	-	-
D. Non-Financial companies	-	-	-	-
E. Others	5,000	1,800	395,530	77,000
<b>Total</b>	<b>5,000</b>	<b>1,800</b>	<b>395,530</b>	<b>77,000</b>

### 3. Operating leases

No data to be disclosed.

### 4. Asset management and trading on behalf of others

(€ '000)

TYPE OF SERVICES	AMOUNT AS AT	
	12.31.2017	12.31.2016
<b>1. Management and trading on behalf of third parties</b>		
a) purchases	-	-
1. settled	-	-
2. unsettled	-	-
b) sales	-	-
1. settled	-	-
2. unsettled	-	-
<b>2. Segregated accounts</b>		
a) individual	4,347,694	4,965,778
b) collective	-	-
<b>3. Custody and administration of securities</b>		
a) third party securities on deposits: relating to depositary bank activities (excluding segregated accounts)	-	-
1. securities issued by the bank preparing the accounts	-	-
2. other securities	-	-
b) third-party securities held in deposits (excluding segregated accounts): other	101,336,773	121,204,156
1. securities issued by the bank preparing the accounts	7,333,481	13,203,461
2. other securities	94,003,292	108,000,695
c) third-party securities deposited with third parties	101,038,199	120,255,024
d) property securities deposited with third parties	85,861,562	92,119,914
<b>4. Other</b>	<b>8,146,126</b>	<b>8,245,303</b>

## Part B - Balance Sheet - Liabilities

## 5. Assets subject to accounting offsetting or under master netting agreements and similar ones

(€ '000)

INSTRUMENT TYPE	GROSS AMOUNTS OF FINANCIAL ASSETS (A)	FINANCIAL LIABILITIES OFFSET IN BALANCE SHEET (B)	NET BALANCE SHEET VALUES OF FINANCIAL ASSETS (C=A-B)	RELATED AMOUNTS NOT RECOGNISED IN BALANCE SHEET		NET AMOUNTS AT 12.31.2017 (F=C-D-E)	NET AMOUNTS AT 12.31.2016
				FINANCIAL INSTRUMENTS (D)	CASH COLLATERAL RECEIVED (E)		
1. Derivatives	9,367,524	-	9,367,524	8,317,555	189,472	860,497	699,261
2. Reverse repos	-	-	-	-	-	-	-
3. Securities lending	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-
<b>Total 12.31.2017</b>	<b>9,367,524</b>	<b>-</b>	<b>9,367,524</b>	<b>8,317,555</b>	<b>189,472</b>	<b>860,497</b>	<b>X</b>
<b>Total 12.31.2016</b>	<b>12,949,764</b>	<b>-</b>	<b>12,949,764</b>	<b>12,208,174</b>	<b>42,329</b>	<b>X</b>	<b>699,261</b>

## 6. Liabilities subject to accounting offsetting or under master netting agreements and similar ones

(€ '000)

INSTRUMENT TYPE	GROSS AMOUNTS OF FINANCIAL LIABILITIES (A)	FINANCIAL ASSETS OFFSET IN BALANCE SHEET (B)	NET BALANCE SHEET VALUES OF FINANCIAL LIABILITIES (C=A-B)	RELATED AMOUNTS NOT RECOGNISED IN BALANCE SHEET		NET AMOUNTS AT 12.31.2017 (F=C-D-E)	NET AMOUNTS AT 12.31.2016
				FINANCIAL INSTRUMENTS (D)	CASH COLLATERAL PLEDGED (E)		
1. Derivatives	10,092,891	-	10,092,891	8,317,555	1,145,605	629,731	750,793
2. Repos	-	-	-	-	-	-	-
3. Securities lending	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-
<b>Total 12.31.2017</b>	<b>10,092,891</b>	<b>-</b>	<b>10,092,891</b>	<b>8,317,555</b>	<b>1,145,605</b>	<b>629,731</b>	<b>X</b>
<b>Total 12.31.2016</b>	<b>13,809,188</b>	<b>-</b>	<b>13,809,188</b>	<b>12,208,174</b>	<b>850,221</b>	<b>X</b>	<b>750,793</b>





## Part C - Income Statement

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## Part C - Income Statement

### Section 1 - Interest income and expense - Item 10 and 20

#### 1.1 Interest income and similar revenues: breakdown

(€ '000)

ITEMS/TYPE	YEAR 2017				YEAR 2016
	DEBT SECURITIES	LOANS	OTHER TRANSACTIONS	TOTAL	TOTAL
1. Financial assets held for trading	40,130	-	-	40,130	26,503
2. Available-for-sale financial assets	849,519	-	-	849,519	774,734
3. Held-to-maturity investments	4,813	-	-	4,813	5,698
4. Loans and receivables with banks	13,805	98,815	-	112,620	178,932
5. Loans and receivables with customers	39,167	4,290,105	-	4,329,272	4,657,538
6. Financial assets at fair value through profit or loss	3,940	-	-	3,940	802
7. Hedging derivatives	X	X	285,002	285,002	573,854
8. Other assets	X	X	1,347	1,347	9,504
<b>Total</b>	<b>951,374</b>	<b>4,388,920</b>	<b>286,349</b>	<b>5,626,643</b>	<b>6,227,565</b>

The interest accrued during the year on positions classified at 31 December 2017 as "impaired" amount to €391 million.  
The negative interest components on financial assets, contributing to net interest margin, amount -€214 million.

#### 1.2 and 1.5 Interest income/expenses and similar revenues/charges: hedging differentials

(€ '000)

ITEMS	YEAR 2017	YEAR 2016
A. Positive differentials relating to hedging operations	2,369,249	2,592,926
B. Negative differentials relating to hedging operations	(2,084,247)	(2,019,072)
<b>C. Net differential</b>	<b>285,002</b>	<b>573,854</b>

#### 1.3 Interest income and similar revenues: other information

##### 1.3.1 Interest income from financial assets denominated in currency

(€ '000)

ITEMS	YEAR 2017	YEAR 2016
a) Assets denominated in currency	390,618	87,598

#### 1.4 Interest expenses and similar charges: breakdown

(€ '000)

ITEMS/TYPE	YEAR 2017				YEAR 2016
	DEBTS	SECURITIES	OTHER TRANSACTIONS	TOTAL	TOTAL
1. Deposits from central banks	156,950	X	-	156,950	(8,860)
2. Deposits from banks	(140,107)	X	-	(140,107)	(212,933)
3. Deposits from customers	(48,368)	X	-	(48,368)	(85,967)
4. Debt securities in issue	X	(1,858,138)	-	(1,858,138)	(2,208,257)
5. Financial liabilities held for trading	-	-	(22,571)	(22,571)	(14,513)
6. Financial liabilities at fair value through profit or loss	-	(2,516)	-	(2,516)	-
7. Other liabilities and funds	X	X	(954)	(954)	(3,499)
8. Hedging derivatives	X	X	-	-	-
<b>TOTAL</b>	<b>(31,525)</b>	<b>(1,860,654)</b>	<b>(23,525)</b>	<b>(1,915,704)</b>	<b>(2,534,029)</b>

The negative interest components on financial liabilities, contributing to net interest margin, amount €323 million, including €158 million benefit arising from TLTRO II facilities presented in sub-item "1. Deposits from central banks".

#### 1.6 Interest expenses and similar charges: other information

##### 1.6.1 Interest expenses on liabilities denominated in currency

(€ '000)

ITEMS	YEAR 2017	YEAR 2016
a) Liabilities denominated in currency	(344,039)	(106,884)

## Section 2 - Fees and commissions - Item 40 and 50

### 2.1 Fees and commissions income: breakdown

(€ '000)

TYPE OF SERVICES/VALUES	YEAR 2017	YEAR 2016
<b>a) guarantees given</b>	<b>281,717</b>	<b>334,586</b>
<b>b) credit derivatives</b>	-	-
<b>c) management, brokerage and consultancy services:</b>	<b>2,127,093</b>	<b>1,848,078</b>
1. securities trading	-	2
2. currency trading	96,751	97,599
3. portfolio management	60,035	84,484
3.1 individual	60,035	84,484
3.2 collective	-	-
4. custody and administration of securities	9,558	11,157
5. custodian bank	-	-
6. placement of securities	1,159,597	895,952
7. reception and transmission of orders	89,230	103,776
8. advisory services	16,209	19,301
8.1 related to investments	6,824	9,668
8.2 related to financial structure	9,385	9,633
9. distribution of third party services	695,713	635,807
9.1 portfolio management	3,838	8,118
9.1.1 individual	3,838	8,118
9.1.2 collective	-	-
9.2 insurance products	685,546	617,632
9.3 other products	6,329	10,057
<b>d) collection and payment services</b>	<b>693,048</b>	<b>664,354</b>
<b>e) securitisation servicing</b>	<b>50,965</b>	<b>47,561</b>
<b>f) factoring</b>	-	-
<b>g) tax collection services</b>	-	-
<b>h) management of multilateral trading facilities</b>	-	-
<b>i) management of current accounts</b>	<b>819,447</b>	<b>857,843</b>
<b>j) other services</b>	<b>339,150</b>	<b>324,220</b>
<b>k) security lending</b>	<b>1,404</b>	<b>5,444</b>
<b>Total</b>	<b>4,312,824</b>	<b>4,082,086</b>

### 2.2 Fees and commissions income by distribution channel

(€ '000)

CHANNELS/SECTORS	YEAR 2017	YEAR 2016
<b>a) through Group bank branches</b>	<b>1,914,701</b>	<b>1,615,624</b>
1. portfolio management	60,035	84,484
2. placement of securities	1,158,953	895,333
3. others' products and services	695,713	635,807
<b>b) off-site</b>	<b>644</b>	<b>619</b>
1. portfolio management	-	-
2. placement of securities	644	619
3. others' products and services	-	-
<b>c) other distribution channels</b>	-	-
1. portfolio management	-	-
2. placement of securities	-	-
3. others' products and services	-	-
<b>Total</b>	<b>1,915,345</b>	<b>1,616,243</b>

## Part C - Income Statement

## 2.3 Fees and commissions expenses: breakdown

(€ '000)

TYPE OF SERVICES/VALUES	YEAR 2017	YEAR 2016
a) guarantees received	(120,433)	(107,133)
b) credit derivatives	(11,048)	(1,784)
c) management, brokerage and consultancy services:	(64,430)	(66,868)
1. trading financial instruments	(6,433)	(9,944)
2. currency trading	(522)	(1,055)
3. portfolio management	(11,051)	(2,365)
3.1 own portfolio	(62)	(554)
3.2 third party portfolio	(10,989)	(1,811)
4. custody and administration of securities	(31,747)	(34,934)
5. placement of financial instruments	(5,922)	(200)
6. off-site distribution of financial instruments, products and services	(8,755)	(18,370)
d) collection and payment services	(153,381)	(133,848)
e) other services	(41,484)	(74,296)
f) security borrowing	(792)	(2,303)
<b>Total</b>	<b>(391,568)</b>	<b>(386,232)</b>

## Section 3 - Dividend income and similar revenues - Item 70

## 3.1 Dividend income and similar revenues: breakdown

(€ '000)

ITEMS/REVENUES	YEAR 2017		YEAR 2016	
	DIVIDENDS	INCOME FROM UNITS IN INVESTMENT FUNDS	DIVIDENDS	INCOME FROM UNITS IN INVESTMENT FUNDS
A. Financial assets held for trading	-	-	-	-
B. Available for sale financial assets	19,104	3,510	71,888	2,468
C. Financial assets at fair value through profit or loss	33,660	-	-	-
D. Investments	3,751,772	X	1,098,208	X
<b>Total</b>	<b>3,804,536</b>	<b>3,510</b>	<b>1,170,096</b>	<b>2,468</b>
<b>Total dividends and income from units in investment</b>		<b>3,808,046</b>		<b>1,172,564</b>

The item "C. Financial assets at fair value through profit and loss" is represented by Bank Pekao S.A. dividend (reclassified into "fair value option" during second quarter of 2017).

The item "D. Investments" include the extraordinary dividend for €3,005 million distributed by subsidiary UniCredit Bank AG.

Provided below is the breakdown of dividends on equity investments collected during 2017 and 2016.



### Breakdown of dividends by investments

(€ '000)

	YEAR 2017	YEAR 2016
UniCredit Bank AG	3,005,326	398,348
Zagrebacka Banca D.D.	192,424	-
UniCredit Bulbank A.D.	148,195	2
UniCredit Bank Ireland P.l.c.	73,000	79,000
UniCredit Bank Hungary ZRT	71,373	-
Finecobank S.p.A.	60,219	101,263
UniCredit Factoring S.p.A.	58,546	68,182
UniCredit Bank S.A.	27,631	-
Mediobanca S.p.A.	27,577	20,124
CreditRas Vita S.p.A.	26,500	10,000
Aviva S.p.A.	15,190	40,795
UniCredit Bank Slovenia D.D.	13,882	-
UniCredit Bank Serbia JSC	10,088	-
CNP UniCredit Vita S.p.A.	9,683	9,683
Incontra Assicurazioni S.p.A.	6,064	-
UniCredit AD Banja Luka	5,634	-
Euro TLX S.p.A.	360	442
Sviluppo Globale Geie	80	-
Bank Pekao S.A.	-	256,727
Pioneer Global Asset Management S.p.A.	-	113,642
<b>Total</b>	<b>3,751,772</b>	<b>1,098,208</b>

## Section 4 - Gains (Losses) on financial assets and liabilities held for trading - Item 80

### 4.1 Gains and losses on financial assets and liabilities held for trading: breakdown

(€ '000)

TRANSACTIONS/P&L ITEMS	YEAR 2017				NET PROFIT
	UNREALISED PROFITS	REALISED PROFITS	UNREALISED LOSSES	REALISED LOSSES	
<b>1. Financial assets held for trading</b>	<b>47,840</b>	<b>191,409</b>	<b>(77,881)</b>	<b>(157,086)</b>	<b>4,282</b>
1.1 Debt securities	47,840	191,407	(77,881)	(157,084)	4,282
1.2 Equity instruments	-	2	-	(2)	-
1.3 Units in investment funds	-	-	-	-	-
1.4 Loans	-	-	-	-	-
1.5 Other	-	-	-	-	-
<b>2. Financial liabilities held for trading</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
2.1 Debt securities	-	-	-	-	-
2.2 Deposits	-	-	-	-	-
2.3 Other	-	-	-	-	-
<b>3. Financial assets and liabilities: exchange differences</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>(20,208)</b>
<b>4. Derivatives</b>	<b>1,473,645</b>	<b>1,317,771</b>	<b>(1,457,441)</b>	<b>(1,299,959)</b>	<b>101,147</b>
4.1 Financial derivatives:	1,473,645	1,317,771	(1,457,441)	(1,299,959)	101,147
- on debt securities and interest rates	1,451,740	986,164	(1,434,169)	(975,298)	28,437
- on equity securities and share indices	2,370	29,074	(3,737)	(28,974)	(1,267)
- on currency and gold	X	X	X	X	67,131
- other	19,535	302,533	(19,535)	(295,687)	6,846
4.2 Credit derivatives	-	-	-	-	-
<b>Total</b>	<b>1,521,485</b>	<b>1,509,180</b>	<b>(1,535,322)</b>	<b>(1,457,045)</b>	<b>85,221</b>

## Part C - Income Statement

## Section 5 - Fair value adjustments in hedge accounting - Item 90

## 5.1 Fair value adjustments in hedge accounting: breakdown

(€ '000)

P&L COMPONENT/VALUES	YEAR 2017	YEAR 2016
<b>A. Gains on:</b>		
A.1 Fair value hedging instruments	1,415,111	18,052
A.2 Hedged asset items (in fair value hedge relationship)	509,662	217,818
A.3 Hedged liability items (in fair value hedge relationship)	1,026,263	114,957
A.4 Cash-flow hedging derivatives	-	-
A.5 Assets and liabilities denominated in currency	1,962	-
<b>Total gains on hedging activities</b>	<b>2,952,998</b>	<b>350,827</b>
<b>B. Losses on:</b>		
B.1 Fair value hedging instruments	(1,650,886)	(245,526)
B.2 Hedged asset items (in fair value hedge relationship)	(1,302,694)	(102,494)
B.3 Hedged liability items (in fair value hedge relationship)	(7,958)	(834)
B.4 Cash-flow hedging derivatives	(4,167)	(2,693)
B.5 Assets and liabilities denominated in currency	-	(2,027)
<b>Total losses on hedging activities</b>	<b>(2,965,705)</b>	<b>(353,574)</b>
<b>C. Net hedging result</b>	<b>(12,707)</b>	<b>(2,747)</b>

The net hedging result also reflected -€4 million resulting from model adjustments needed to reflect into derivatives valuations the presence of guarantees and credit risk of counterparties.

## Section 6 - Gains (Losses) on disposal/repurchase - Item 100

## 6.1 Gains (Losses) on disposal/repurchase: breakdown

(€ '000)

ITEMS/P&L ITEMS	YEAR 2017			YEAR 2016		
	GAINS	LOSSES	NET PROFIT	GAINS	LOSSES	NET PROFIT
<b>Financial assets</b>						
1. Loans and receivables with banks	310	-	310	30	(6)	24
2. Loans and receivables with customers	491,084	(1,060,841)	(569,757)	218,988	(214,857)	4,131
3. Available-for-sale financial assets	759,768	(446,121)	313,647	591,829	(296,936)	294,893
3.1 Debt securities	668,260	(442,715)	225,545	486,375	(296,894)	189,481
3.2 Equity instruments	47,822	(3,406)	44,416	105,395	(40)	105,355
3.3 Units in investment funds	43,686	-	43,686	59	(2)	57
3.4 Loans	-	-	-	-	-	-
4. Held-to-maturity investments	-	-	-	-	-	-
<b>Total assets</b>	<b>1,251,162</b>	<b>(1,506,962)</b>	<b>(255,800)</b>	<b>810,847</b>	<b>(511,799)</b>	<b>299,048</b>
<b>Financial liabilities</b>						
1. Deposits with banks	19,989	(10,463)	9,526	28,041	(15,409)	12,632
2. Deposits with customers	-	-	-	-	-	-
3. Debt securities in issue	40,402	(13,346)	27,056	89,971	(93,111)	(3,140)
<b>Total liabilities</b>	<b>60,391</b>	<b>(23,809)</b>	<b>36,582</b>	<b>118,012</b>	<b>(108,520)</b>	<b>9,492</b>
<b>Total financial assets and liabilities</b>			<b>(219,218)</b>			<b>308,540</b>

In 2016, gains from sale of Loans and Receivables with customers arised from sale of bonds, among which "Trevi Finance 3" bond for €103 million.

Gains and losses on disposal booked in full year 2017 in item "2. Loans and receivables with customers" include those underlying the FINO Portfolio sale, classified (until the time of transfer) in item "140. Non-current assets and disposal groups classified as held for sale", and amount to approximately €350 million and €714 million respectively, with a negative net amount for approximately €364 million. This net result, technically booked following the transfer of the assets occurred in July 2017, has been almost entirely absorbed and covered by the positive economic effects, as, among others, write-backs from recoveries associated with the dynamic of the Portfolio during the first half 2017, and by the derecognition of liabilities recorded as of 31 December 2016 on commitments for other transactions, in the context of the valuation made of the Portfolio in that year. For a more detailed disclosure on FINO Project, see the information provided in Part E - Information on risk and hedging policies - Section 1. Credit risk, below the Table "A.1.2. Breakdown of credit exposures by portfolio and credit quality (gross and net amounts).

Gains on Available for Sale assets are essentially related to effects of the sale of government bonds, mainly Italian ones. Gains from repurchase of debts with banks arise from buyback of some deposits before their original maturity. Gains from repurchase of debts securities in issue arise from buyback of some issuances before their original maturity.

## Section 7 - Gains (Losses) on financial assets/liabilities at fair value through profit or loss - Item 110

### 7.1 Net change in financial assets/liabilities at fair value through profit or loss: breakdown

(€ '000)

TRANSACTIONS/P&L ITEMS	YEAR 2017				
	UNREALISED PROFITS	REALISED PROFITS	UNREALISED LOSSES	REALISED LOSSES	NET PROFIT
<b>1. Financial assets</b>	<b>23,653</b>	<b>2,725</b>	<b>(1,861)</b>	<b>(21)</b>	<b>24,496</b>
1.1 Debt securities	1,526	663	(1,826)	(21)	342
1.2 Equity securities	21,874	500	(2)	-	22,372
1.3 Units in investment funds	253	1,562	(33)	-	1,782
1.4 Loans	-	-	-	-	-
<b>2. Financial liabilities</b>	<b>46,553</b>	<b>-</b>	<b>(154,275)</b>	<b>(44,328)</b>	<b>(152,050)</b>
2.1 Debt securities	46,553	-	(154,275)	(44,328)	(152,050)
2.2 Deposits from banks	-	-	-	-	-
2.3 Deposits from customers	-	-	-	-	-
<b>3. Financial assets and liabilities in foreign currency: exchange differences</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>-</b>
<b>4. Credit and financial derivatives</b>	<b>117,194</b>	<b>38,196</b>	<b>(128,836)</b>	<b>-</b>	<b>26,554</b>
<b>Total</b>	<b>187,400</b>	<b>40,921</b>	<b>(284,972)</b>	<b>(44,349)</b>	<b>(101,000)</b>

Equity securities into financial assets include effects of the evaluation of residual interests in Bank Pekao which has been reclassified into Fair Value Option assets in second quarter 2017 after loose of control following the closing of the sale process.

Debt securities into financial liabilities include the bond "mandatorily settled equity-linked certificates" issued in the contest of the sale of Bank Pekao which has contributed for -€82 million to the result for the period.

The item "Credit and financial derivatives" include financial derivatives connected to financial liabilities represented by debt securities.

## Section 8 - Net losses/recoveries on impairment - Item 130

### 8.1 Net impairment losses on loans and receivables: breakdown

(€ '000)

TRANSACTIONS/P&L ITEMS	YEAR 2017								YEAR 2016 TOTAL
	WRITE-DOWNS			WRITE-BACKS				TOTAL	
	SPECIFIC		PORTFOLIO	SPECIFIC		PORTFOLIO			
	WRITE-OFFS	OTHER		INTEREST	OTHER	INTEREST	OTHER		
<b>A. Loans and receivables with banks</b>	-	(1,175)	(5,530)	-	1,007	-	11,445	5,747	(9,074)
- Loans	-	(1,175)	(5,530)	-	1,007	-	11,445	5,747	(9,074)
- Debt securities	-	-	-	-	-	-	-	-	-
<b>B. Loans and receivables with customers</b>	(301,129)	(2,766,887)	(449,098)	401,400	1,120,034	-	652,398	(1,343,282)	(9,987,041)
<b>Impaired related to purchase agreements</b>	(1,584)	(1,985)	-	773	2,235	-	-	(561)	(16,580)
- Loans	(1,584)	(1,985)	X	773	2,235	X	X	(561)	(16,580)
- Debt securities	-	-	X	-	-	X	X	-	-
<b>Other loans</b>	(299,545)	(2,764,902)	(449,098)	400,627	1,117,799	-	652,398	(1,342,721)	(9,970,461)
- Loans	(299,545)	(2,761,513)	(449,098)	400,627	1,104,919	-	652,398	(1,352,212)	(9,954,578)
- Debt securities	-	(3,389)	-	-	12,880	-	-	9,491	(15,883)
<b>C. Total</b>	<b>(301,129)</b>	<b>(2,768,062)</b>	<b>(454,628)</b>	<b>401,400</b>	<b>1,121,041</b>	<b>-</b>	<b>663,843</b>	<b>(1,337,535)</b>	<b>(9,996,115)</b>

The significant decrease of net write-downs on loans and provisions for guarantees and commitments is related to the initiatives launched at the end of 2016 (FINO Project and PORTO Project), under which significant methodological updates were introduced as at 31 December 2016, in order to make them adherent to the new managerial approach in the management of the impaired loans, in compliance to the defined guidelines of the 2016-2019 Strategic Plan approved by the Board of Directors.

## Part C - Income Statement

## 8.2 Net impairment losses on available for sale financial assets: breakdown

(€ '000)

TRANSACTIONS/P&L ITEMS	YEAR 2017					YEAR 2016 TOTAL
	WRITE-DOWNS		WRITE-BACKS			
	SPECIFIC		SPECIFIC			
	WRITE-OFFS	OTHER	INTEREST	OTHER	TOTAL	
A. Debt securities	-	(21,428)	-	-	(21,428)	(19,114)
B. Equity instruments	(53,964)	(91,239)	X	X	(145,203)	(115,244)
C. Units in investment funds	-	(146,903)	X	-	(146,903)	(550,335)
D. Loans to banks	-	-	-	-	-	-
E. Loans to customers	-	-	-	-	-	-
<b>F. Total</b>	<b>(53,964)</b>	<b>(259,570)</b>	<b>-</b>	<b>-</b>	<b>(313,534)</b>	<b>(684,693)</b>

Impairment losses on Equity instruments include -€77 million related to investments of Voluntary Schem of National Interbank Deposit Guarantee Fund (FITD).

Impairment losses on Units in investment funds include -€137 million related to impairment of the shares held in Atlante fund.

## 8.4 Net impairment losses on other financial transactions: breakdown

(€ '000)

TRANSACTIONS/P&L ITEMS	YEAR 2017							YEAR 2016 TOTAL	
	WRITE-DOWNS			WRITE-BACKS					
	SPECIFIC		PORTFOLIO	SPECIFIC		PORTFOLIO			TOTAL
	WRITE-OFFS	OTHER		INTEREST	OTHER	INTEREST	OTHER		
A. Guarantees given	-	(158,896)	(35,099)	-	50,191	-	19,486	(124,318)	(59,664)
B. Credit derivatives	-	-	-	-	-	-	-	-	-
C. Commitments to disburse funds	-	-	-	-	-	-	-	-	-
D. Other transactions	-	-	-	-	192,607	-	-	192,607	(192,607)
<b>E. Total</b>	<b>-</b>	<b>(158,896)</b>	<b>(35,099)</b>	<b>-</b>	<b>242,798</b>	<b>-</b>	<b>19,486</b>	<b>68,289</b>	<b>(252,271)</b>

## Section 9 - Administrative costs - Item 150

### 9.1 Staff expenses: breakdown

(€ '000)

TYPE OF EXPENSES/VALUES	YEAR 2017	YEAR 2016
<b>1) Employees</b>	<b>(3,081,800)</b>	<b>(4,422,035)</b>
a) wages and salaries	(2,127,521)	(2,254,622)
b) social charges	(575,083)	(600,922)
c) severance pay	(42,270)	(47,686)
d) social security costs	-	-
e) allocation to employee severance pay provision	(16,368)	(20,285)
f) provision for retirements and similar provisions:	(1,945)	43,550
- defined contribution	-	(87)
- defined benefit	(1,945)	43,637
g) payments to external pension funds:	(180,738)	(197,481)
- defined contribution	(180,738)	(197,539)
- defined benefit	-	58
h) costs related to share-based payments	(29,764)	(31,428)
i) other employee benefits	(108,111)	(1,313,161)
<b>2) Other staff</b>	<b>(3,488)</b>	<b>(3,999)</b>
<b>3) Directors and Statutory Auditors</b>	<b>(5,905)</b>	<b>(7,052)</b>
<b>4) Early retirement costs</b>	<b>-</b>	<b>-</b>
<b>5) Recoveries of payments for second employees to other companies</b>	<b>57,028</b>	<b>55,568</b>
<b>6) Refund of expensives for employees seconded to the company</b>	<b>(87,326)</b>	<b>(83,293)</b>
<b>Total</b>	<b>(3,121,491)</b>	<b>(4,460,811)</b>

### 9.2 Average number of employees by category

	YEAR 2017	YEAR 2016
<b>Employees:</b>	<b>37,601</b>	<b>39,821</b>
a) Senior managers	814	1,023
b) Managers	19,587	20,523
c) Remaining employees staff	17,200	18,275
<b>Other Staff</b>	<b>982</b>	<b>709</b>
<b>Total</b>	<b>38,583</b>	<b>40,530</b>

### 9.3 Defined benefit company pension funds: costs and revenues

(€ '000)

	YEAR 2017	YEAR 2016
Current service cost	(977)	(727)
Settlement gains (losses)	-	56,568
Past service cost	-	-
Interest cost on the DBO	(5,748)	(13,146)
Interest income on plan assets	4,489	942
Others costs/revenues	291	-
<b>Total recognised in profit or loss</b>	<b>(1,945)</b>	<b>43,637</b>

### 9.4 Other employee benefits

(€ '000)

	YEAR 2017	YEAR 2016
- Seniority premiums	-	18,936
- Leaving incentives	21,041	(1,214,601)
- Other	(129,152)	(117,496)
<b>Total</b>	<b>(108,111)</b>	<b>(1,313,161)</b>

The forfeiture of Ex-liberality for "Seniority Premiums" (25<sup>th</sup> year of service), paid by "Speciale Elargizione Welfare", in 2016 resulted into release of provisions in place with related economic benefits.

The net balance in the sub-item "Leaving Incentives" for 2016 was mainly determined by the effects envisaged by the Strategic Plan 2016-2019 that led to the signing of an agreement with the unions in Italy on 4 February 2017 for early retirement through the extraordinary industry Solidarity Fund for the population having the right to retire within the following 54 months by Plan's expiry.

## Part C - Income Statement

## 9.5 Other administrative expenses: breakdown

(€ '000)

TYPE OF EXPENSES/SECTORS	YEAR 2017	YEAR 2016
<b>1) Indirect taxes and duties</b>	<b>(468,142)</b>	<b>(493,974)</b>
<b>2) Contributions to Resolution Funds and Deposit Guarantee Schemes (DGS)</b>	<b>(178,021)</b>	<b>(375,465)</b>
<b>3) Guarantee fee for DTA conversion</b>	<b>9,818</b>	<b>(243,163)</b>
<b>4) Miscellaneous costs and expenses</b>	<b>(2,358,256)</b>	<b>(2,490,093)</b>
<b>a) advertising marketing and communication</b>	<b>(77,060)</b>	<b>(82,495)</b>
<b>b) expenses related to credit risk</b>	<b>(320,147)</b>	<b>(339,209)</b>
<b>c) indirect expenses related to personnel</b>	<b>(68,037)</b>	<b>(85,466)</b>
<b>d) Information &amp; Communication Technology expenses</b>	<b>(820,510)</b>	<b>(754,670)</b>
lease of ICT equipment and software	(10,965)	(27,950)
software expenses: lease and maintenance	(6,280)	(4,716)
ICT communication systems	(5,125)	(6,062)
ICT services: external personnel/outsourced services	(774,683)	(689,939)
financial information providers	(23,457)	(26,003)
<b>e) consulting and professionals services</b>	<b>(169,013)</b>	<b>(181,281)</b>
consulting	(120,155)	(126,069)
legal expenses	(48,858)	(55,212)
<b>f) real estate expenses</b>	<b>(455,717)</b>	<b>(516,335)</b>
premises rentals	(275,089)	(303,579)
utilities	(60,005)	(69,072)
other real estate expenses	(120,623)	(143,684)
<b>g) operative costs</b>	<b>(447,772)</b>	<b>(530,637)</b>
surveillance and security services	(54,113)	(70,112)
printing and stationery	(7,301)	(11,070)
postage and transport of documents	(25,275)	(28,320)
administrative and logistic services	(299,878)	(354,424)
insurance	(29,071)	(32,612)
association dues and fees	(20,211)	(20,590)
other administrative expenses - other	(11,923)	(13,509)
<b>Total (1+2+3+4)</b>	<b>(2,994,601)</b>	<b>(3,602,695)</b>

Expenses related to personnel include the expenses that do not represent remuneration of the working activity of an employee in compliance with IAS19.

**Contributions to Resolution and Guarantee Funds**

The item Other administrative costs holds the contributions to resolution and guarantee funds ("SRF"), harmonised and non-harmonised ("DGS") respectively equal to €109 million and €69 million.

With reference to the harmonised funds, the ordinary annual contributions due pursuant to the Directives No.49 and No.59 of 2014 are accounted for in full when the legal condition of the obligation to make payment and the application of IFRIC21 does not allow the pro-rata attribution to the interim periods.

In relation to the contribution obligations described below, such schemes have led to expenses during the period and will result in expenses in future periods as ordinary contribution scheme and potential extraordinary contributions.

- With the introduction of the European Directive 2014/59/EU, the Regulation on the Single Resolution Mechanism ("BRRD Directive" Regulation (EU) No.806/2014 of the European Parliament and of the Council dated 15 July 2014) established a framework for the recovery and resolution of crises in credit institutions, by setting up a single resolution committee and a single resolution fund for banks (Single Resolution Fund, "SRF"). The Directive provides for the launch of a compulsory contribution mechanism that entails the collection of the target level of resources by 31 December 2023, equal to 1% of the covered deposits of all the authorised institutions acting in the European territory. The accumulation period may be extended for a further four years if the funding mechanisms have made cumulative disbursements for a percentage higher than 0.5% of the covered deposits. If, after the accumulation period, the available financial resources fall below the target level, the collection of contributions shall resume until that level has been recovered. Additionally, having reached the target level for the first time and, in the event that the available financial resources fall to less than two thirds of the target level, these contributions are set at the level which allows the target level to be reached within a period of six years. The contribution mechanism provides for ordinary annual contributions, with the aim of distributing the costs evenly over time for the contributing banks, and extraordinary additional contributions, of up to three times the expected annual contributions, when the available financial resources are not sufficient to cover the losses and costs of the interventions. A transitional phase of contributions to the national compartments of the SRF and a progressive mutualisation of these are expected.
- The Directive 2014/49/EU of 16 April 2014, in relation to the DGS, aims to enhance the protection of depositors through the harmonisation of the related national legislation. The Directive provides for the launch of a mandatory national contribution mechanism that will allow a target level of

0.8% of the amount of its members' covered deposits to be collected by 3 July 2024. The contribution resumes when the financing capacity is below the target level, at least until the target level is reached. If, after the target level has been reached for the first time, the available financial resources have been reduced to below two thirds of the target level, the regular contribution shall be set at a level to achieve the target level within six years. The contribution mechanism provides for ordinary annual contribution instalments, with the aim of distributing the costs evenly over time for the contributing banks, and also extraordinary contributions, if the available financial resources of a DGS are insufficient to repay depositors; the extraordinary contributions cannot exceed 0.5% of covered deposits per calendar year, but in exceptional cases and with the consent of the competent authority, the DGS may demand even higher contributions.

The Directives No.49 and No.59 specify the possibility of introducing irrevocable payment commitments as an alternative to collection of fund contributions lost through cash, up to a maximum of 30% of the total resources target.

With reference to Directive No.59 (SRF contributions) the instrument of the irrevocable payment commitments has been used by UniCredit S.p.A for an amount equal to 15% of full contributions paid in May 2016, resulting in the payment of guarantees in the form of cash amounting to €16 million. The cash collateral has been recognised in the balance sheet as an asset and its contractual characteristics have been taken into account in its measurement. With reference to ordinary contribution for year 2017, UniCredit S.p.A. has not adopted this faculty.

For the operations in the 2015 and 2016 financial years, the ordinary contribution to the SRF for UniCredit S.p.A. was respectively €73 million and €107 million. In its capacity as National Resolution Authority ("NRA"), Banca d'Italia, with its Provisions dated 21 November 2015, approved by the Italian Minister of Economy and Finance on 22 November 2015, ordered the launch of a resolution programme (for Banca delle Marche, Banca Popolare dell'Etruria e del Lazio, Cassa di Risparmio di Ferrara, Cassa di Risparmio della Provincia di Chieti). In particular, this related to a restructuring process which resulted in the separation of the non-performing assets of the four banks concerned, which flowed into a "bad bank", from the rest of the assets and liabilities, that flowed into four new "bridge banks", held to be sold through a competitive selling procedure on the market. As a result of this intervention, the aforementioned ministerial measures led to a request for extraordinary contributions for 2015, in accordance with Directive 59, established at the maximum rate of three times the ordinary contribution due for 2015. Therefore, UniCredit S.p.A made an extraordinary contribution of €219 million (equal to 3 times the ordinary annual contribution due in 2015 for the Single Resolution Fund). The liquidity needed to fund this intervention was provided through a loan in which UniCredit participated. In particular, the intervention of UniCredit entailed:

- the provision of a loan in favour of the National Resolution Fund for about €783 million (portion of a total loan of €2,350 million disbursed together with other banks), fully repaid on 21 December 2015 through the liquidity inflow from the ordinary and extraordinary contributions of 2015;
- the provision of a further tranche of the loan in favour of the National Resolution Fund for a numina equal to €516 million (portion of a total loan of €1,550 million disbursed together with other banks) and the payment commitment to the National Resolution Fund for an amount of €33 million (portion of a total commitment of €100 million for a further tranche of the loan together with other banks), both closed in June 2017.
- the provision of a loan in favour of the National Resolution Fund for about €210 million (portion of a total loan of €1,240 million disbursed together with other banks)

In respect of the loan and the commitment, Cassa Depositi e Prestiti has assumed a commitment of financial support in favour of National Resolution Fund in the event of insufficient liquidity to the date of loan maturity, while awaiting that the National Resolution Fund finds the necessary resources through ordinary and/or extraordinary contributions.

With reference to the financing of the resolution of the four banks mentioned above, Italian Legislative Decree 183/2015 (converted into Law 208/2015) also introduced an additional payment commitment for 2016, due to the National Resolution Fund, for the payment of contributions of up to twice the ordinary contribution quotas to the Single Resolution Fund, which could be activated if the funds available to the National Resolution Fund net of recoveries arising from the disposal transactions carried out by the Fund from the assets of the four banks mentioned above were not sufficient to cover the bonds, losses and costs payable by the Fund in relation to the measures provided for by the Provisions launching the resolution. In application of this faculty, in December 2016 additional €214 million (two times the ordinary contribution) have been requested by Banca d'Italia and posted into UniCredit S.p.A. profit and loss and subsequently paid during 2017.

### **Guarantee fee for DTA conversion**

Guarantee fee for DTA conversion, introduced by D.L. 3 May 2016 No.59, art.11 ("Decreto Banche", converted into Law 30 June 2016 No.119), allows, under some conditions, option to convert into fiscal credits some deferred tax assets provided that such options is irrevocably exercised under payment of an annual fee originally for the period 2015-2029, then modified into 2016-2030 by some amendments introduced by D.L. 23 December 2016 No.237 ("salva-risparmio") converted into Law 17 February 2017 No.15.

In 2016, the first relevant year, according to relevant rules existing as at 31 December 2016, a total amount for €243 million, corresponding to the fee effectively paid for the year 2015 (€121.5 million) and an equal estimated amount for year 2016, was booked. Following the described changes in law effective from 22 February 2017, in the first half 2017 figures the estimated amount of €121.6 million booked in 2016 has been reversed and a cost for the period for €111.8 million, corresponding to the amount effectively paid on 28 June 2017 for year 2017, has been booked.

## Part C - Income Statement

## Section 10 - Net provisions for risks and charges - Item 160

## 10.1 Net provisions for risks and charges: breakdown

(€ '000)

ASSETS/P&L ITEMS	YEAR 2017			YEAR 2016 TOTAL
	PROVISIONS	REALLOCATION SURPLUS	TOTAL	
<b>1. Other provisions</b>				
1.1 legal disputes	(154,263)	62,265	(91,998)	(251,445)
1.2 staff costs	-	-	-	-
1.3 other	(377,540)	81,141	(296,399)	(634,681)
<b>Total</b>	<b>(531,803)</b>	<b>143,406</b>	<b>(388,397)</b>	<b>(886,126)</b>

Provisions for legal disputes are posted to cover potential liabilities that may result from pending lawsuits. More details are included into Part E - Information on risks and hedging policies.

## Section 11 - Impairments/write-backs on property, plant and equipment - Item 170

## 11.1 Impairment on property, plant and equipment: breakdown

(€ '000)

ASSETS/P&L ITEMS	YEAR 2017			
	DEPRECIATION	IMPAIRMENT LOSSES	WRITE-BACKS	NET PROFIT
<b>A. Property, plant and equipment</b>				
<b>A.1 Owned</b>	<b>(124,925)</b>	<b>(33,130)</b>	-	<b>(158,055)</b>
- used in the business	(109,604)	(7,761)	-	(117,365)
- held for investment	(15,321)	(25,369)	-	(40,690)
<b>A.2 Finance lease</b>	-	-	-	-
- used in the business	-	-	-	-
- held for investment	-	-	-	-
<b>Total A</b>	<b>(124,925)</b>	<b>(33,130)</b>	-	<b>(158,055)</b>
<b>B. Non-current assets and groups of assets held for sale</b>	<b>X</b>	<b>(6,473)</b>	-	<b>(6,473)</b>
- used in the business	X	(16)	-	(16)
- held for investment	X	(6,457)	-	(6,457)
<b>Total A + B</b>	<b>(124,925)</b>	<b>(39,603)</b>	-	<b>(164,528)</b>

## Section 12 - Impairments/write-backs on intangible assets - Item 180

## 12.1 Impairments on intangible assets: breakdown

(€ '000)

ASSETS/P&L ITEMS	YEAR 2017			
	AMORTISATION	IMPAIRMENT LOSSES	WRITE-BACKS	NET PROFIT
<b>A. Intangible assets</b>				
<b>A.1 Owned</b>	<b>(1,573)</b>	<b>(2,861)</b>	-	<b>(4,434)</b>
- generated internally by the company	-	-	-	-
- other	(1,573)	(2,861)	-	(4,434)
<b>A.2 Finance leases</b>	-	-	-	-
<b>Total</b>	<b>(1,573)</b>	<b>(2,861)</b>	-	<b>(4,434)</b>



## Section 13 - Other net operating income - Item 190

### 13.1 Other operating expenses: breakdown

(€ '000)

TYPE OF EXPENSE/VALUE	YEAR 2017	YEAR 2016
Impairment losses on leasehold improvements (on-non separable assets)	(24,476)	(21,959)
Other	(232,420)	(193,384)
<b>Total other operating expenses</b>	<b>(256,896)</b>	<b>(215,343)</b>

### 13.2 Other operating income: breakdown

(€ '000)

TYPE OF REVENUE/VALUES	YEAR 2017	YEAR 2016
Recovery of costs	558,051	625,449
<i>of which: Commissione di istruttoria veloce (CIV)</i>	12,138	39,565
Revenues for administrative services	39,544	37,624
Rentals	29,837	30,017
Other revenues	61,777	110,738
<b>Total operating income</b>	<b>689,209</b>	<b>803,828</b>

## Section 14 - Profit (Loss) of equity investments - Item 210

### 14.1 Profit (Loss) of investments: breakdown

(€ '000)

P&L ITEMS/VALUES	YEAR 2017	YEAR 2016
<b>A. Income</b>	<b>3,246,309</b>	<b>576,316</b>
1. Revaluations	-	-
2. Gains on disposal	1,997,689	572,260
3. Writebacks	1,248,620	4,056
4. Other gains	-	-
<b>B. Expense</b>	<b>(503,330)</b>	<b>(1,306,291)</b>
1. Writedowns	-	-
2. Impairment losses	(164,717)	(1,306,274)
3. Losses on disposal	(338,613)	(17)
4. Other expenses	-	-
<b>Net profit</b>	<b>2,742,979</b>	<b>(729,975)</b>

Gains from disposal include results from the sale of Pioneer Global Asset Management S.p.A. (€1,551 million) and Pioneer Pekao Investment Management S.A. (€110 million). Losses from disposal include -€4 million from Pekao sale.

As of December 2017 impairment loss has been recognised in subsidiaries, including: -€83 million Koc Finansal Hizmetler, -€39 million UniCredit International Luxembourg, -€14 million I-Faber. Writebacks have been recognised on UniCredit Bank AG (€293 million) and UniCredit Bank Austria (€947 million).

## Section 15 - Net gains (losses) on property, plant and equipment and intangible assets measured at fair value - Item 220

No data to be disclosed in this section.

## Section 16 - Impairment of goodwill - Item 230

No data to be disclosed in this section.

## Part C - Income Statement

## Section 17 - Gains (Losses) on disposal of investments - Item 240

## 17.1 Gains and losses on disposal of investments: breakdown

(€ '000)

P&L ITEMS/VALUES	YEAR 2017	YEAR 2016
<b>A. Property</b>		
- gains on disposal	11,344	16,207
- losses on disposal	(223)	(69)
<b>B. Other assets</b>		
- gains on disposal	202	8,168
- losses on disposal	(1,543)	(2,668)
<b>Net Profit</b>	<b>9,780</b>	<b>21,638</b>

## Section 18 - Tax expense (income) related to profit or loss from continuing operations - Item 260

## 18.1 Tax expense (income) related to profit or loss from continuing operations: breakdown

(€ '000)

P&L ITEMS/SECTORS	YEAR 2017	YEAR 2016
1. Current tax (+/-)	(76,174)	(8,859)
2. Adjustment to current tax of prior years (+/-)	35,996	125,917
3. Reduction of current tax for the year (+)	-	-
3. bis Reduction in current tax for the year due tax credit under L. 214/2011 (+)	2,859,337	341,369
4. Changes to deferred tax assets (+/-)	(2,800,444)	(671,024)
5. Changes to deferred tax liabilities (+/-)	11,449	14,170
<b>6. Tax expense for the year (+/-)</b>	<b>30,164</b>	<b>(198,427)</b>

## 18.2 Reconciliation of theoretical tax charge to actual to actual tax charge

(€ '000)

	YEAR 2017	YEAR 2016
<b>Total profit or loss before tax from continuing operations (item 260)</b>	<b>6,121,378</b>	<b>(11,261,706)</b>
Theoretical tax rate	27.5%	27.5%
<b>Theoretical computed taxes on income</b>	<b>(1,683,379)</b>	<b>3,096,969</b>
1. Different tax rates	-	-
2. Non-taxable income - permanent differences	2,569,154	507,536
3. Non-deductible expenses - permanent differences	(645,357)	(585,548)
4. Different fiscal laws/IRAP	(103,647)	29,701
a) IRAP (italian companies)	(92,500)	39,250
b) other taxes (foreign companies)	(11,147)	(9,549)
5. Prior years and changes in tax rates	(8,941)	127,236
a) effects on current taxes	35,944	124,565
- tax loss carryforward/unused tax credit	-	-
- other effects of previous periods	35,944	124,565
b) effects on deferred taxes	(44,885)	2,671
- changes in tax rates	-	-
- new taxes incurred (+) previous taxes revocation (-)	-	-
- true-ups/ adjustments of the calculated deferred taxes	(44,885)	2,671
6. Valuation adjustments and non-recognition of deferred taxes	(98,426)	(3,380,702)
a) deferred tax assets write-down	-	(84,007)
b) deferred tax assets recognition	-	-
c) deferred tax assets non-recognition	(98,426)	(3,296,695)
d) deferred tax assets non-recognition according to IAS12.39 and 12.44	-	-
e) other	-	-
7. Amortisation of goodwill	-	-
8. Non-taxable foreign income	-	-
9. Other differences	760	6,381
<b>Recognised taxes on income</b>	<b>30,164</b>	<b>(198,427)</b>

Income taxes are accounted in accordance with the provisions of IAS12. The tax charge consists of current and deferred taxes, mainly determined in accordance with the current provisions on IRES and IRAP, and separate taxation "for transparency" of CFCs (Controlled Foreign Companies, foreign subsidiaries that fall under specific relevant tax provisions).

IRES is calculated by making specific upward or downward adjustments to the year profit for determining the taxable income. These tax adjustments are made as required by the provisions of the Italian Income Tax Code (TUIR), in relation to the non-deductibility of certain expenses or the non-taxability of certain income.

The tax rate applied to the taxable income is 24%. An additional surcharge of 3.5% applies to Banks and Financial companies.

The above-mentioned tax adjustments may be "permanent" or "temporary".

The "permanent" adjustments relate to expenses/revenues that are totally or partially non-deductible/non-taxable.

The "temporary" adjustments, on the other hand, relate to expenses or revenues whose deductibility or taxability is deferred to future tax periods on the occurrence of particular events, or distributed in equal quotas over a predefined number of years.

The presence of "temporary" adjustments leads to the recognition of deferred tax assets (for revenues to be deducted) or deferred tax liabilities (for expenses to be taxed).

The purpose of the recognition of deferred tax assets and liabilities is to reconcile in the financial statements the different tax period of relevancy established by the TUIR compared to the accounting period of relevancy.

For IRES purposes, subject to an option to be applied to Agenzia delle Entrate, this tax can be paid at the national Tax Group level rather than on an individual basis.

All the Italian companies for which there is a relationship of control can adhere to the tax consolidation, which enables the payment of this tax on a single taxable amount consisting of the algebraic sum of the taxable amounts of the individual companies adhering to the consolidation.

The tax rate is 24%.

Furthermore, a separate taxation "for transparency" has been established, to be calculated in accordance with the provisions of the TUIR on profit and losses accounted by direct and indirect foreign subsidiaries (referred to as CFCs or Controlled Foreign Companies) established in Countries considered to be tax havens or, anyway, in Countries whose tax rates are considerably lower than the Italian one. The tax rate is 27.5%.

On the other hand, IRAP is a manufacturing tax, linked to the algebraic sum of P&L items specifically identified by Legislative Decree No.446/97, which also states further upward and downward adjustments to be made. Law No.190 of 23 December 2014 (2015 Stability Law) establishes, starting from 2015, that personnel costs for employees with permanent employment contracts are fully deductible from IRAP in addition to the deductions already established by the so called "cuneo fiscale". Furthermore, in 2016 entered into force the provision of article 16 of Law Decree 27 June 2015 No.83 which introduced the full deductibility of the loan loss provisions directly in the year in which the same provisions are recognised in the financial statements.

This tax is applied on a regional basis. A national rate of 4.65% has been established, to which each Region can independently add an increase of 0.92% therefore up to a theoretical rate of 5.57% (plus an additional 0.15% for Regions with a health budget deficit).

The tax is calculated by apportioning the overall value of production among the various administrative Regions where the productive activities are carried out (for banks the apportionment is made on the basis of the regional distribution of customer's deposits) and applying the respective regional rate to each of the individual portions identified.

Income tax for 2017 amounted to a positive value of €30.2 million, versus a negative -€198.4 million in 2016.

As from 2017, tax provisions provided by Law 208/2015 (Budget Law for 2016) and stated to be applied with a year deferral entered into force:

- as per Art.1, c.61: IRES nominal rate is reduced from 27.5% to 24%;
- as per Art.1, c.65: Banks are levied by a 3.5% IRES additional rate;
- as per Art.1, c.67: the 4% non-deductibility on bank interest expense was abolished.

Therefore, while IRES nominal rate for UniCredit is unchanged, interest expenses are now fully deductible.

Current IRES show a positive value of €468.9 million notwithstanding a highly positive Balance Sheet profit due to the presence of tax non relevant positive income items such as dividends and evaluation and sales on equity investments.

Considering the remaining tax loss carried forward in 2016, the tax losses to carry forward overall amount to €3,272.7 million.

A further amount of €32.5 million deriving from the merger of the subsidiary PGAM should also be considered.

After the performing of the sustainability test pursuant to IAS12, DTAs on tax losses to carry forward were subject to impairment with a sustainable amount of €247 million, although from a tax perspective they represent tax losses to carry forward with no time limitation.

Current IRAP shows an amount payable equal to €30.4 million.

## Part C - Income Statement

As the forecast for IRAP taxable base for 2018 is negative, an impairment of €22 million on the DTAs for temporary differences that would have had a reversal on IRAP in 2018 was also made, as deemed non-recoverable. This impairment has an equal negative impact on the P&L of €22 million.

As per Art.7 of Law 21 June 2017 No.96, which converted Law Decree No. 50/2017, a new extent of the notional yield for ACE ("Aiuto alla Crescita Economica) tax relief is stated, with a reduction of the rate from 4.75% for 2016 to 1.6% for 2017 and 1.5% for 2018. Notwithstanding the strong reduction of the percentage rate, an increase in the amount with respect to 2016 was registered owing to the raise in equity capital of €13 billion performed by UniCredit S.p.A. between February and March 2017: the tax benefit increases from €43.4 million in 2016 to €53.4 million in 2017. A total amount of DTA for €96.8 million should have been recorded. But, following to the execution of the Sustainability Test in the event of a Tax Group with a negative taxable base no DTAs has been accounted.

UniCredit S.p.A. closed 2016 financial year with a net loss of €11,460.1 million; so, the conditions for a new conversion of Deferred Tax Assets (DTA) into tax credits, pursuant to Art.2, paragraph 55, of Law Decree 29 December 2010 No.225 were met. The conversion was carried out for an amount of €2,859.3 million.

In order to preserve for the future the regime of conversion of DTAs into tax credits, and in order to overcome the issues raised by the European Commission in connection to the application of State Aid rules, Art.11 of DL 3 May 2016 No.59 (so-called "Banks Decree" - converted into Law 30 June 2016 No.119), introduced the possibility, starting from 2016 since 2030, to opt for the payment of an annual fee to the extent of 1.5% of an aggregate amount deriving from the difference between:

- the increase in convertible DTAs recognised at the end of the fiscal year and the convertible DTA existing as of 31 December 2007, for IRES tax, and as of 31 December 2012 for IRAP tax, taking into account the amounts already converted into tax credits;
- taxes:
  - IRES paid by tax group starting from 1 January 2008;
  - IRAP paid registered starting from 1 January 2013 by Legal Entities included in Tax Group with convertible DTAs;
  - substitute taxes that generated convertible DTAs.

The fee has been settled on the 28 June 2017 for an amount €111.8 million. Considering the provisions of 2016, made accordingly the legislation in force at the date and equal to €121.6 million, a positive impact of approximately €10 million has been recorded in the income statement among Administrative costs: b) Other administrative expenses.

### Section 19 - Gains (Losses) on groups of assets held for sale, net of tax - Item 280

The item includes the economics referred to year 2017 related to discontinued operations belonging to Pioneer Global Asset Management S.p.A., merged into UniCredit S.p.A in the context of the business combination realised at the end of 2017.

### Section 20 - Other information

No information to be disclosed in this section.

## Section 21 - Earnings per share

### 21.1 and 21.2 Average number of diluted shares and other information

	YEAR 2017	YEAR 2016
Net profit (loss) (thousand of €)	6,203,514	(11,588,026)
Average number of outstanding shares	1,947,449,190	601,361,554
Average number of potential dilutive shares	10,695,178	2,575,677
Average number of diluted shares	1,958,144,368	603,937,231
<b>Earnings per share (€)</b>	<b>3.185</b>	<b>(19.270)</b>
<b>Diluted earnings per share (€)</b>	<b>3.168</b>	<b>(19.190)</b>

€32,131 thousand has been deducted from 2017 net profit of €6,235,645 thousand due to disbursements charged to equity made in connection with the contract of usufruct on treasury shares agreed under the 'cashes' transaction (€127,893 thousands was added to the 2016 net losses).

Net of the average number of treasury shares and of further No.9,675,641 shares held under a contract of usufruct, and reflects the effects of reverse stock split and capital increase operations, carried out during the 2017 first half, already describes in Part B - Section 14 - Shareholders' Equity.

The data for the previous period have been restated according to IAS33 § 64, to reflect the effects of reverse stock split.



## Part D - Comprehensive Income

Other Comprehensive Income Statement

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## Part D - Comprehensive Income

## Other Comprehensive Income Statement

(€ '000)

ITEMS	YEAR 2017		
	BEFORE TAX EFFECT	TAX EFFECT	AFTER TAX EFFECT
<b>10. Net profit (loss) for the year</b>	X	X	6,235,645
Other comprehensive income not reclassified to profit or loss			
<b>20. Property, plant and equipment</b>	-	-	-
<b>30. Intangible assets</b>	-	-	-
<b>40. Defined benefit plans</b>	20,999	(5,780)	15,219
<b>50. Non-current assets classified as held for sale</b>	-	-	-
<b>60. Portion of revaluation reserves from investments valued at equity</b>	-	-	-
Other comprehensive income that may be reclassified to profit or loss			
<b>70. Hedges of foreign investments:</b>	-	-	-
a) fair value changes	-	-	-
b) reclassification to profit or loss	-	-	-
c) other changes	-	-	-
<b>80. Exchange differences:</b>	-	-	-
a) changes in value	-	-	-
b) reclassification to profit or loss	-	-	-
c) other changes	-	-	-
<b>90. Cash flow hedges:</b>	(58,170)	19,191	(38,979)
a) fair value changes	(58,170)	19,191	(38,979)
b) reclassification to profit or loss	-	-	-
c) other changes	-	-	-
<b>100. Available-for-sale financial assets:</b>	(168,692)	61,819	(106,873)
a) fair value changes	59,152	(10,703)	48,449
b) reclassification to profit or loss	(227,273)	72,901	(154,372)
- impairment losses	(2,935)	800	(2,135)
- gains/losses on disposals	(224,338)	72,101	(152,237)
c) other changes	(571)	(379)	(950)
<b>110. Non-current assets classified as held for sale:</b>	-	-	-
a) fair value changes	-	-	-
b) reclassification to profit or loss	-	-	-
c) other changes	-	-	-
<b>120. Portion of revaluation reserves from investments valued at equity:</b>	-	-	-
a) fair value changes	-	-	-
b) reclassification to profit or loss	-	-	-
- impairment losses	-	-	-
- gains/losses on disposals	-	-	-
c) other changes	-	-	-
<b>130. Total other comprehensive income</b>	(205,863)	75,230	(130,633)
<b>140. Comprehensive income after tax (Item 10+130)</b>	X	X	6,105,012







## Part E - Information on risks and hedging policies

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## Part E - Information on risks and hedging policies

### Risk Management within UniCredit S.p.A.

UniCredit S.p.A. monitors and manages its risks through rigorous methodologies and procedures proving to be effective through all phases of the economic cycle.

The control and steering of the risks are exerted by the UniCredit S.p.A.'s Group Risk Management function which pursues its own steering, coordination and control role. Furthermore the model considers a specific point of reference for Italy through the "CRO Italy" function<sup>10</sup>, to which has been assigned the responsibilities for managing the credit, operational and reputational risks with reference to perimeter of UniCredit S.p.A., as well as the managerial coordination of the credit activities of UniCredit S.p.A. Italian Legal Entities.

In particular, the Group Risk Management function is responsible for the following tasks:

- optimising asset quality, minimising the cost of risks, consistent with the risk / return targets assigned to each Business Area;
- defining, together with the Strategy and M&A and Group Planning, Finance, Shareholding and Investor Relations functions, the risk appetite and evaluating capital adequacy, within the Internal Capital Adequacy Process (ICAAP), consistently with Basel II, Pillar II requirements;
- defining, in compliance with Basel II standards and Banca d'Italia requirements, the rules, methodologies, guidelines, policies and strategies for risk management, and the relevant processes and their implementation;
- setting up a credit and concentration risk control system both of single counterpart/economic groups and significant clusters (e.g. as industrial areas/economic sectors), monitoring and reporting the limits defined beforehand;
- defining and providing to the Business Areas the valuation, managerial, monitoring and reporting criteria of the risks and ensuring the consistency of systems and control procedures;
- supporting the Business Areas to achieve their targets, contributing to product and business development (e.g. innovation of credit products, competitive opportunities linked to Basel accords, etc.);
- verifying, by means of the initial and on-going validation process, the adequacy of the risk measurement systems adopted, steering the methodological choices towards higher and homogeneous qualitative standards and controlling the coherence in using the above systems within the processes;
- setting up an adequate system of preventive risk analysis, in order to quantify the impacts of a quick worsening of the economic cycle or of other shock factors (i.e. Stress Test) on the economic and financial structure. This holds for single risk types as well as their integration and comparison to available capital;
- creating a risk culture in UniCredit S.p.A. and across the whole Group.

## Section 1 - Credit risk

### Qualitative information

#### 1. General aspects

With reference to the risks management model, in the Parent Company a single competence centre is operating for all the activities of steering and coordination for credit risk and also for the development and validation of rating systems and for integrated risk management.

The "CRO Italy" function has been assigned, the responsibilities for managing the credit, operational and reputational risks with reference to perimeter of UniCredit S.p.A., as well as the managerial coordination of the credit activities of UniCredit S.p.A. Italian legal entities.

The organisational structure for the control of credit risk, operational since 31 December 2017, is described in the next sections with specific reference to structures and responsibilities.

During the 2017 the Group Credit Risk Strategies were released, consistent with the Group "risk appetite" and Pillar II metrics in order to optimise the operational application. Also in accordance with Pillar II, concentration risk was updated in respect of single name concentration risk (so-called Bulk Risk) and at industry level. In addition, in order to further improve the process and methodologies to be used in the development of credit risk strategies and stress tests on credit risk, the relevant internal regulations were updated.

UniCredit S.p.A. continues its intense effort to extend Basel 2 principles to the entire perimeter. With specific reference to credit risk, it is currently authorised to use internal estimates for PD, LGD and EAD parameters for its own loan portfolio (Sovereigns, Banks, Multinational Enterprises and Global Project Finance transactions) and for corporate portfolios and retail exposures. With regard to the EAD parameter, the parameters defined

<sup>10</sup> Starting from February 2018 the "CRO Italy" function was renamed "CLO Italy" in accordance with the resolution of the Board of Directors dated 21 September 2017.

according to the Foundation approach are currently being used, with the exception of Private Mortgages for which an internal EAD model is already being used for regulatory purposes.

During 2017 the refinement of the regulation and of the credit processes for the new classification of impaired loans and for the categories of forborne exposures has continued, in line with EBA and Supervisory Authority requirements, with the goal of making more pervasive the risk culture, supported by dedicate training events.

Monitoring of major business groups identification, those with an exposure exceeding two percent of the consolidated regulatory capital (Top Group), is carried out by a special unit within Group Risk Management dedicated to the definition and periodic review of the "Top Group", which includes both industrial and financial groups. All the economic groups are mapped according to principles and guidelines that are valid for the whole Group which include both Regulators' guidelines and Bank's best practice.

Within the scope of the Italian business, the steps of lending, monitoring and loan recovery are managed through specific processes and IT procedures, which are constantly enhanced in order to maximise the efficiency and effectiveness. In particular for the lending, highly automated processes for Small Enterprises and individuals are implemented, based on Group Risk Management predefined credit measures and in line with the constantly updated technology, aiming to spread and make more secure and easier the use of advanced transactional channels, particularly for current account and consumer lending services, also with ad hoc initiatives ("Subito Banca") and high-tech tools. In addition, the refinement of the performance monitoring process, of the metrics and of the processes for the management of impaired loans has continued, enhancing specialised credit structures, already operative, that are responsible for the management of the positions classified at unlikely to pay or doubtful loans.

In order to continue providing an adequate support to the economy the range of financing products has been continuously updated, enhancing the use of instruments such as the SACE guarantees, the Central Guarantee Fund and tranching cover operations. Furthermore, specific attention was focused on households that intend to purchase a home, both through the range of specific products and features that can be customised based on the analysis of customer needs, including future needs, and by optimising the management of novation. We also continued to support customers in the areas affected by events such as floods and earthquakes, both by participating in the initiatives promoted by ministerial decrees and through the Group own initiatives.

## **2. Credit Risk Management Policy**

### **2.1 Organisation**

The credit risk organisation in UniCredit S.p.A. breaks down into two levels:

- functions with responsibilities at Group level;
- functions with responsibilities at country level.

The functions with responsibilities at Group level are:

- the structure "Group Credit & Integrated Risks", in charge, at Group level, for credit risk strategies definition, monitoring and controlling the credit risk of Group portfolio as well as ensuring an integrated view across Pillar I and II risks to Top Management. The responsibilities of this department include:
  - providing top management with an integrated and looking-forward vision of risks affecting the Group, defining and monitoring the *Group Risk Appetite* and the Group credit strategies processes, preparing the Internal Capital Adequacy Assessment Process (ICAAP) and managing the stress testing process (both regulatory and managerial). It is also responsible for developing and maintaining models for economic capital calculation within the perimeter of competence;
  - defining the credit risk reporting framework and the risks integrated reporting, both regarding the definition of rules, standards and taxonomies and regarding the design of the reporting elaboration processes. It is responsible for the preparation of the regulatory reporting for the credit component of competence of "Group Credit & Integrated Risks" structure as well as of the second level controls of reference. Moreover, it is responsible for mapping the Economic Groups as well as for coordinating and monitoring the initiatives and projects of the "Group Credit & Integrated Risks" structure;
  - providing Top Management with an integrated vision (current and looking-forward) of risks affecting the Group and acting as point of reference and coordination towards Supervisor Authorities and major external stakeholders for issues within its perimeter of competence. It is responsible for monitoring, on a periodic basis, the Group overall credit portfolio and the integrated risk assessment, and for planning and controlling of provisions, RWAs and capital absorption for performing and problem loans;
- the structure "Group Credit Risk Governance", responsible for guaranteeing at Group level the coordination and steering of Pillar 1 Credit Risk models and architectural framework/ information flow and processes also ensuring their integration and alignment. Furthermore it's responsible for cooperating with other Group competent functions on *Risk Weighted Assets* contents. The responsibilities of this structure include:
  - managing the communication to Governance Bodies and Supervisory Authorities, coordinating key projects, monitoring performance KPIs, planning the activities related to IRB systems, processes and information flow;

## Part E - Information on risks and hedging policies

- developing and maintaining methodologies and group models for Pillar 1 (Credit) and provide guidelines coordinating, interacting with and supporting local development functions in order to guarantee an homogenous methodology implementation at Group level;
- defining and maintaining the group methodologies to be applied to Credit Risk processes and for their application on UniCredit S.p.A, in line with existing Global Rules. In addition, it is responsible for preparing, issuing and updating the Global Rules regarding credit risks, Pillar II risks, internal capital and related stress tests;
- cooperating with other Group competent functions in order to identify potential improvement in capital absorption and to define data quality controls related to Group Risk Weighted Assets/RWA;
- the structure “Group Internal Validation”, responsible for validating, at Group level, the risk measurement methodologies, the related processes, the IT components and the data quality, for Pillar I and Pillar II risks, providing adequate reporting for Company Bodies and the Supervisory Authority, managing the Group monitoring process related to the recommendations issued in response to the validation activities, ensuring their correct implementation within UniCredit S.p.A. and the Legal Entities. Furthermore it’s responsible for verifying the adequacy and implementation of the corrective actions adopted in response to requests from the Supervisory Authority on the IRB models within the area of competence according to internal regulations in place (i.e. Global Policy on Internal Validation and linked Global Process Regulations);
- the structure “Group Credit Transactions” is responsible, inter alia, for the evaluation, monitoring and supervision of Large Credit Transactions, through the following activities:
  - evaluating credit proposals to be submitted to the “Group Transactional Credit Committee” and/or the “Group Credit Committee” and formulating expert opinions to be submitted to these committees;
  - within its delegated powers, deciding or issuing non-binding credit opinions (NBCO) in respect of credit proposals for Financial Institutions, Banks and Sovereigns (FIBS) and Special Products (e.g. ABS, Securitisation, etc.);
  - acting as Group competence team, issuing expert advice on credit proposals submitted by the Legal Entities in relation to structured finance (LPAC and Special Products) and FIBS transactions;
  - monitoring FIBS counterparties, the companies in the CIB portfolio, Structured Finance transactions and Debt-to-Equity positions arising in the course of restructuring activities;
  - assessing, approving and managing country risk on an ongoing basis, specifically the risk assumed in cross-border credit transactions;
- the structure “CRO CEE” is responsible for the management and control of credit operations activities and for credit risk steering of “CEE Division”. The structure is responsible, inter alia, for credit operation activities for “CEE Division” files booked in UniCredit S.p.A., in particular for credit risk assessment, underwriting, monitoring of credit files and management of special credit cases; furthermore it is responsible for non-binding credit opinion (NBCO) issue for transactions above the competence level of “CEE Division” Legal Entities.  
The structure breaks down as follows:
  - Underwriting CEE;
  - Monitoring And Special Credit CEE;
  - Credit Risk CEE.

In parallel, the functions of GRM above mentioned with responsibility at Group level, extend their responsibility acting on CEE Perimeter also.

At Country level, steering and credit risk control activities, as well as the conducting of “operational” activities (e.g. credit delivery, performance monitoring, etc.) falls under the responsibility of CRO controlled subsidiaries.

In UniCredit S.p.A., the “operational” activities (e.g. credit delivery, performance monitoring, etc.) are carried out by the organisational units under “CRO Italy”, reporting to “Group CRO” and specifically:

The Italian loan disbursement and monitoring units (Credit Operations Italy) have been organised into 7 local units each responsible for the entire local portfolio (Corporate, SME Corporate and Individuals):

- the structure “Credit Underwriting” whose responsibilities include the following activities:
  - coordinating the activities of 8 Regional Industry Team;
  - RIT decision-making activities;
  - managing the lending to UniCredit S.p.A. customers;
  - coordinating and managing the lending to UniCredit S.p.A. customers in relation to Consumer Finance products;
  - preliminary and administrative activities for transactions to be submitted to the Italian Transactional Credit Committee and the Italian Special & Transactional Credit Committee.

The structure consists of the following structures:

- "Credit Committee Secretariat";
- "Central Credit Risk Underwriting Italy";
- "Individuals Credit Underwriting Italy";
- "Territorial Credit Risk Underwriting Italy";
- the structure "Credit Monitoring" whose responsibilities include the following activities:
  - ensure the quality of the loan portfolio through performance monitoring of the positions, risk analysis and identification of corrective measures;
  - support the Business functions in monitoring the credit portfolio of the territorial areas, analysing the performance and implementing the corrective measures required.

The structure consists of the following structures:

- Credit Monitoring Operations & Support;
- Central Credit Risk Monitoring Italy;
- "Hubs Territorial Monitoring";
- "Retail Central Credit Monitoring";
- the structure "Special Credit" whose responsibilities include the following activities:
  - overseeing activities aimed at reducing the cost of credit risk of problem loans;
  - managing the collection of delinquent and overdue unpaid credits and the related activities, as the classifications doubtful or non performing credits, according to the delegated powers, ensuring the enforcement and implementations of collection strategies and activities;
  - conducting borrower assessment, credit analysis and preparing the related documentation for applications to be submitted to the competent decision-making Bodies;
  - overseeing the administrative and accounting activities under its responsibility.

The structure consists of the following structures:

- Workout Italy;
- Inc. Italy;
- Customer Recovery
- Special Credit Analysis and Control Management;
- Special Credit Support And Administration Italy.
- the structure Restructuring Italy, which, inter alia, is in charge of managing, assessing and making decisions of positions undergoing restructuring;
- the structure Loans Administration which, inter alia, is responsible for the following activities:
  - monitoring administrative activities after the loan has been granted/disbursed;
  - managing subsidized loans;
  - lending and administrative activities relating to mutual guarantee institutions;
  - coordination and management of activities after disbursement of Mortgages by ensuring the quality and integrity of information assets and risk minimisation; decisions on loan applications falling within its responsibility.

The structure consists of the following structures:

- 5 territorial Hub of the "Loan Administration";
- Subsidized Loan;
- Mortgages Evaluation;
- Loan Administration Operation & Support.

In addition, with respect to credit risk, specific committees have been set up:

- the "Group Risk & Internal Control Committee" is a "Top management Committee" and has responsibility of steering, coordinating and monitoring the risks at Group level as well as supporting the CEO in the management and oversight of the Group's and UniCredit S.p.A.'s internal control system. With specific reference to management and control of risks, the Committee has responsibility of establishing policies, guidelines, operational limits and methodologies for the measurement, management and control of the risks as well as for the definition of the methodologies for the measurement and control of internal capital and for the evaluation of risks reporting and estimates of provisions on risks. In this scope, the Committee has consulting and suggestion functions for the definition and periodic review of the Group's Risk Appetite Framework (RAF), special reference for the overall risk control framework, in order to ensure their consistency with the strategic guidelines and risk appetite established for the limit setting related to the various types of risks and respective allocation;
- the "Group Credit Committee", in charge of discussing and approving credit proposals within its responsibility, including "restructuring" and "workout" positions, status classification of files, relevant strategies and corrective actions to be taken for "watchlist" positions, specific limits for transactions related to Debt Capital Markets on the Trading Book, single issuer exposure limits on Trading Book, "Debt to Equity" transactions and transactions related to Equity participations deriving from "Debt to Equity" transactions;
- the "Group Transactional Credit Committee" which has approval function, within the delegated powers, (decision-making and/ or issuing of non-binding opinions to the Group Legal Entities), and/consulting function for files to be approved by upper Bodies, with regard to credit proposals, including "restructuring", "INC" and "workout" positions, classification status of files, strategies and relevant corrective actions to be taken for "watchlist" files, Debt to Equity transactions and/or actions/rights-execution related to equity participations resulting from Debt to Equity transactions, Debt to Assets transactions and/or actions/rights execution related to asset resulting from Debt to Asset transactions, single issuer exposure limits on Trading book, and for proposals of distressed asset disposal;

## Part E - Information on risks and hedging policies

- the “Italian Transactional Credit Committee”, which has decision-making functions within its delegated powers and/or consulting functions for files to be approved by upper Bodies, is responsible, with regard to UniCredit S.p.A. counterparts, (excluding FIBS counterparts) for credit proposals (including “restructuring”, “INC” and “workout” positions), the classification status of positions, strategies and corrective actions to be taken for “watchlist” positions, pledge based credit transactions, Debt to Equity transactions and/or actions/rights-execution related to equity participations resulting from Debt to Equity transaction, Debt to Assets transactions and/or actions/rights-execution related to asset resulting from Debt to Asset transactions, issuing Non-Binding Credit Opinions concerning the proposals of the Italian Legal Entities of UniCredit group and proposals of distressed loan disposal;
- the “Group Rating Committee”, responsible for taking decisions and/or issuing non-binding opinions to the Group Legal Entities on rating override proposals;
- the “Italian Special & Transactional Credit Committee”, which is responsible, within its delegated powers, for the evaluation and approval or, consulting functions for files to be approved by upper Bodies, on “restructuring”, “INC” and “workout” positions, as well as positions of customers managed by Special Network and Real Estate Areas, and proposals of distressed loan disposal.

### Credit risk

In the course of its credit business activities UniCredit S.p.A. is exposed to the risk that its loans may, due to the deterioration of the debtor's financial condition, not be repaid at maturity, and thus resulting in a partial or full write-off. This risk is always ingrained in traditional lending operations regardless of the form of the credit facility (whether cash or credit commitments, secured or unsecured, etc.).

The main reasons for default lie in the borrower's lacking the autonomous ability to service and repay the debt (due to a lack of liquidity, insolvency, etc.), as well as the occurrence of events that are unrelated to the debtor's operating and financial condition, such as country risk or the impact of operational risks. Other banking operations, in addition to traditional lending and deposit activities, can expose UniCredit S.p.A. to other credit risks.

For example, ‘non-traditional’ credit risk may arise from:

- entering into derivative contracts;
- purchasing and selling securities, futures, currencies or commodities;
- holding third-party securities.

The counterparties in these transactions or issuers of securities held by UniCredit S.p.A. could default as a result of insolvency, political and economic events, lack of liquidity, operating problems or other reasons. Defaults of a large number of transactions, or one or more large transactions, could have a material adverse impact on the Group's operations, financial condition and operating results. UniCredit S.p.A. monitors and manages the specific risk of each counterparty and the overall risk of loan portfolios through procedures, structures and rules, that steer, govern and standardise the assessment and management of credit risk, in line with the Group principles and best practice of Group, and which are capable of extending their effectiveness to all phases of the economic cycle.

### Country risk

Country risk is the risk of losses caused by events identified at country level and not at level of specific transaction, counterparty or counterparty group. It is therefore a collection of risks that mainly includes sovereign risk, transfer and convertibility risk, delivery risk, risk related business environment and jurisdiction, political and geopolitical risk, and economic risk. Country risk is primarily managed by determining the appropriate group-wide maximum risk levels (Country Plafonds), that can be assumed by the Legal Entities belonging to the Group towards all counterparties (sovereigns, government entities, banks, financial institutions, corporate customers, small businesses, individuals, project finance, etc.) residing in or related to the country for cross-border transactions (from the standpoint of the Entity providing the loan).

Country risk management processes are mainly concentrated at Holding Company in terms of both methodological aspects and the decision-making process, in order to ensure a uniform assessment and monitoring approach, particularly for the rating assignment, PD (probability of default) and LGD (loss given default), as well as control of risk concentration.

The Country rating assignment (both in terms of PD and LGD) is performed by using the specific internal rating model. The analysis, focused on both qualitative and quantitative factors, is an integral part of the rating calculation process. In case the rating resulting from the model does not appropriately reflect the credit profile of the Country, an override is requested from the competent Body. Both the calculation of PD and LGD values are mandatory and must be assigned before any decision on cross-border credit transactions is taken. The rating has to be updated at least once a year or whenever any material information impacting the country creditworthiness becomes available.

Group-wide cross-border Country risk Plafonds are calculated at single Country level in a top-down/bottom-up process considering, among other factors, the risk of the Country (incl. the rating), the size of the Country, the amount of business opportunities, the guidance of the valid Risk Appetite Framework as well as the current exposure and Country plafond utilisation. Cross-border plafonds are renewed at least on a yearly basis.

The evolution country risk, incl. the macroeconomic and political risk assessment, is constantly monitored. Country risk monitoring activities aim at detecting and promptly reacting to the symptoms of possible deterioration of the risk quality of a Country with cross-border credit exposures. In case of need, necessary countermeasures may be defined. As one of the countermeasures, the Internal Ratings of the mentioned countries may be updated to reflect any changes in Country risk assessment.



With specific reference to the sovereign risk, i.e. direct counterparty risk to sovereigns (and central administrations) is managed through the normal counterparty approval process. Limits and exposures to sovereigns, in both the trading and banking books, are managed in a prudent way to ensure such limits/exposures are sized primarily by both regulatory and liquidity requirements of the Group.

## 2.2 Credit Risk Management, Measurement and Control

### 2.2.1 Reporting and Monitoring

Group Risk Management function is responsible for the credit risk reporting at portfolio level, producing reports both recurring and specific (on demand of Senior Management or external entities, e.g., regulators or rating agencies). Credit portfolio performance is analysed with reference to its main risk drivers (such as growth and risk indicators) customer segments, industrial sectors, regions, and impaired credits performance and related coverage.

The key objective of the reporting and monitoring of the credit portfolio is to detect any signs of deterioration and, therefore, to take appropriate corrective action by analysing the main components of credit risk such as EAD (Exposure to Default), EL (Expected Loss), Migration, Risk Cost, etc.

Portfolio reporting activities are performed in close collaboration with the Risk Management Functions at Legal Entities level.

At Group level, reporting and monitoring activities are assigned to different Organisational Units in the "Group Credit and Integrated Risks" Department.

The "Group Credit Risk Standards & Reporting" Function is in charge of defining the Group framework for reporting on risks and producing standard/customised reporting on credit risk, and is a reference point for the Supervisory Authorities in case of credit risk reporting and data requests. It is also in charge of defining the taxonomies and data processing rules for reporting requirements on credit risk, interfacing with Group Data Office for their implementation, for developing convergence strategies of risk management information system and for promoting the use of business intelligence tools at Group level.

The Unit Consolidated Credit Risk Strategies and Monitoring Function is in charge of analysing and monitoring the breakdown and risk of the loan portfolio according to the main credit risk metrics at Group/LE/Division level, thereby providing to the CFO and the competent Planning & Finance functions with useful factors to highlight deviations from budgets/forecasts and produce the periodic analyses that provide the top management with a comprehensive view of Group risks, as well as the analyses for rating agencies, investors and "customised" requests from external Entities/Bodies.

The Group's reporting and monitoring activities have benefited from the completion of the pursued activities, from 2015, as part of PERDAR Project, focused to ensure compliance with the principles established by the Basel Committee on the subject of "data aggregation & reporting" (so-called BCBS239 Principles). The initiative has been a key factor in achieving the goal of streamlining risks in their reporting to Senior Management and Regulators in terms of quality, completeness, reduced data representation, convergence towards single reporting on Integrated risks and the process to support their consolidation, and has led to the dismantling of the ERM, from first quarter 2017 and its replacement with the Integrated Risk Report that meets the requirements of the new framework.

### 2.2.2 Governance and policies

Relationships between UniCredit S.p.A. and Group Legal Entities carrying out credit-related businesses are defined by specific governance rules, assigning the role of guidance, support and control to UniCredit S.p.A. itself, in respect of the following areas: credit policies, credit strategies, models development, rating systems validation, credit concentration risk, the issuance of credit products, monitoring and reporting portfolio credit risk.

In particular, Group Legal Entities are required to request the Group Risk Management functions of UniCredit S.p.A. a dedicated opinion before granting or reviewing credit lines to individual borrowers or economic groups, whenever they exceed defined thresholds, also with reference to the obligation of compliance with the credit risk concentration limits that have to be measured with respect to the regulatory capital.

In accordance with the role assigned to UniCredit S.p.A. under the Group governance, and specifically to the Group Risk Management function, the "General Group Credit Policies" relating to the Group lending activities define group-wide rules and principles for guiding, governing and standardising credit risk assessment and management, in line with the regulatory requirements and Group best practice.

## Part E - Information on risks and hedging policies

The general rules are supplemented by policies governing defined subjects (business areas, segment activities, type of counterpart/transaction, etc.). Such documents are divided in two categories:

- policies on “Group-wide” issues, developed by UniCredit S.p.A. and addressed to all Entities. Some examples are the policies on FIBS customers (Financial Institutions, Banks and Sovereigns), on Country Limits, on Project Finance and Acquisition & Leveraged Finance transactions, on collateral management for OTC derivatives and Repo and securities lending business, on assessment, monitoring and management of underwriting risk limits for the syndicated loan, on “Commercial Real Estate Financing (CREF)” and on “Structured Trade and Export Finance (STEF)”, the definitions and classification categories of the credits;
- policies developed at the local level by individual Entities. Such documents provide detailed credit rules for, e.g. specific regions, subsidiaries, and, if required by local market peculiarities, they are applicable only within the specific Legal Entity perimeter.

At both Legal Entity and UniCredit S.p.A. level, the policies could be further detailed through Operative Instructions, describing specific rules and instructions for current management.

For instance, in order to provide detailed guidelines for the assessment of loans and receivables with customers of the Italy perimeter and to ensure a uniform approach in that perimeter in relation to similar risks, the Global Policy “Group Credit Risk Management Guidelines” has been supplemented by a specific Policy valid for the Italy perimeter (“Principles and methods for the classification and assessment of higher risk loans and receivables with customers in Italy”).

Credit Policies are normally based on credit principles, and are primarily revised to reflect external regulatory changes, while the coordination with Credit Risk Strategies, that are updated at least annually, drives the areas that will form the target of UniCredit S.p.A.’s relevant credit business and the relative risk drivers (customers/products, industry segments and geographical areas).

### 2.2.3 Management and Measurement Methods

Credit Risk represents the risk of losses of the value of a credit exposure arising from an unexpected worsening of the counterparty’s credit quality.

For the purpose of credit risk measurement, credit risk is defined as the risk of incurring losses arising from the possibility that a counterparty, either a borrower or an issuer of a financial obligation (bond, note, etc.) is not able to repay interest and/or principal or any other amount due (Default Risk). In a broader sense, credit risk can also be defined as potential losses arising either from a default of the borrower/issuer or a decrease in the market value of a financial obligation due to a deterioration in its credit quality. On this topic UniCredit S.p.A. is exploring new approaches to cover also the market value component of Banking Book credit risk.

Credit risk is measured by single borrower/transaction and for the whole portfolio. The tools and processes used for lending to single borrowers during both the approval and monitoring phases include a credit rating process, which is differentiated by customer segment/product to ensure maximum effectiveness.

The assessment of a counterpart’s creditworthiness, within the credit proposal evaluation, begins with an analysis of the financial statements and the qualitative data (competitive positioning, corporate and organisational structure, etc.), regional and industry factors and counterpart behavior within the Entity or the banking system (e.g. Centrale dei rischi), and results in a rating, i.e. the counterpart’s probability of default (PD) on a one-year time horizon.

Each borrower’s credit rating is reviewed at least annually on the basis of new information acquired. Each borrower is also assessed in the context of any economic group with which it is affiliated by taking into account when needed, the risk for the entire economic group.

The organisational model in use includes also a dedicated function, which is separated from loan approval and business functions and is responsible for the management of the so-called rating overrides, i.e. any changes to the automatic rating calculated by the model.

The internal rating assigned to each borrower and its economic group exposure contribute to the lending decision calculation, defined so that, at a constant credit amount, the approval powers granted to each decision-making Body are gradually reduced in proportion to an increased borrower/related risk level.

Regular monitoring focuses on the borrower’s performance management, using all available internal and external information in order to arrive at a score representing a synthetic assessment of the risk associated. This score is obtained using a statistical function that summarises available information using a set of proven significant variables that are predictors of an event of default within a 12 months horizon.

In addition to the usual estimation of risk parameters over a one-year time horizon, long-term risk parameters are estimated to provide a more robust assessment of the risk-adjusted performance in compliance with the accounting standards requirements.

Besides the methodologies summarised in the rating systems, the Group risk management function uses portfolio models enabled to measure credit risk on an aggregated portfolio basis and at the same time to identify sub-portfolio, or single obligor contributions to the overall risk position.

There are three fundamental portfolio credit Risk Measures which are assessed at the one year mark with a quarterly frequency:

- Expected Loss (EL);
- Credit Value at Risk (Credit VaR);
- Expected Shortfall (ES).

The estimate of Credit VaR at the overall portfolio level is obtained from the distribution of losses obtained by Monte Carlo simulation on the horizon of one year, considering the correlations among counterparties. The total loss in each default scenario is the sum of the individual losses, each of which is the product of the percentage of losses given default (LGD) and exposures at default (EAD) for transactions related to defaulted counterparts.

The Expected Loss (EL) at portfolio level represents the aggregated average loss of the portfolio due to potential defaults of the obligors. The EL of the portfolio is just the sum of the single obligor ones, which can be evaluated as the product of  $PD \times LGD \times EAD$ , and is independent from the default correlations in the portfolio. EL is typically charged as a cost component.

Value at Risk represents the threshold monetary loss overcome only with a given probability level (VaR with a 99.9% confidence level, or the loss threshold is exceeded only in 1 in 1000). Economic Capital is derived from Value at Risk subtracting the expected loss and it is an input for determining Internal Capital set up to cover potential losses from all sources of risk.

The Expected Shortfall (ES) is another measure that represents the expected value of losses that exceed the VaR threshold. Portfolio Credit VaR and ES depend significantly on the correlation among the default and can be reduced by portfolio diversification at sector and country level, and limiting the concentration of each counterparts.

The measures of economic capital (Credit VaR based) are also a fundamental input for the design and application of credit strategies, the analysis of credit limits and risk concentration. The economic capital calculation engine is also one of the instruments used for the analysis of stress testing of the credit portfolio.

All the above mentioned risk parameters are subject to an initial validation and a regular monitoring process for each rating system in all its components: models, processes, IT architecture and data quality.

The aim is to give evidence of the systems compliance, highlighting improvement areas as well as possible misalignments in the methodologies, which could limit the full comparability among the resulting risk measures.

The internal Credit VaR model is also subject to assessment in the context of Basel - Pillar II validation.

The calculation of the credit economic capital is available on a single technological platform ("CPM"), with a shared method for the holding structures and for the main geographies of the Group.

In order to assess the credit risk transfer reached by securitisation transactions originated by the Group, an engine (SCA - Structured Credit Analyser) is used, which simulates the loss distribution of the securitised portfolio and the tranches, both for synthetic securitisation (in which the risk is transferred through guarantees or credit derivatives), and for traditional ones (where the assets are sold to a special purpose vehicle). SCA results are compared with the regulatory requirements Basel - Pillar I in order to certify the assessment on significant risk transfer.

#### 2.2.4 Second level controls

An independent Unit, Credit Risk Control, has been created in March 2017 with the mission to perform second level controls mainly focused on Non Performing Exposures. The activity has started in September 2017. The main controls are:

- Classification Controls: check coherence of Past Due, Unlikely to Pay or Bad Loans state with default classification vintage and credit review;
- Provisioning Controls: e.g. consistency of coverage, coherence of Time Value calculation with interest rates and business plans;
- Controls on Forbearance: checks on the relevant phases of the Forborne Exposure classification and management process.

## Part E - Information on risks and hedging policies

### 2.2.5 Credit Risk Strategies

Credit Strategies are an effective credit risk governance tool that contribute to defining budget targets in line with the Group's Risk Appetite, of which they are an integral part. These strategies are also a management tool, as they translate the metrics defined in the Risk Appetite into a concrete form.

Taking into consideration the macroeconomic and credit scenarios, the outlook for each economic sector, as well as the business initiatives/strategies, the Credit Strategies provide a set of guidelines and operational targets for countries and business segments UniCredit S.p.A. operates in, for the purpose of identifying their risk profiles and enabling growth consistent with such profiles.

With regard to risk management of the Group loan portfolio, specific importance is granted to loan concentration risk. Such concentration risk, according to the Basel definition, consists of a single exposure or of a group of correlated exposures with the potential to generate losses of such magnitude as to prejudice UniCredit S.p.A. ability to carry on its normal business.

In compliance with the regulatory framework outlined by the Basel Committee (Pillar II), UniCredit S.p.A. has set up policies and control systems to identify, measure and monitor loan concentration risk:

- to individual counterparties or groups of associated counterparties (Single Borrowers/Economic Groups);
- to counterparties in the same economic sector (Industries).

Stress test simulations are a comprehensive part of credit risk strategies definition.

### 2.2.6 Credit Risk Stress Test

The aim of Credit Risk stress test is to analyze portfolio vulnerability in case of an economic downturn or a structural change of the macroeconomic framework. Different scenarios are considered while performing the stress test exercise, based on increasing levels of severity. In addition, scenarios may also be defined based on specific economic hypotheses

The credit stress test models (or satellite models) are set of models aimed at translating the macro-economic conditions into credit risk parameters (PD/LGD). Within the wider stress testing framework the models serve as basis for calculating the stressed PD/LGD projections under the Adverse Scenarios. They are used as well for the estimation of Forward Looking component within IFRS9 framework.

As regards the modelling methodology the current framework envisages two different approaches for High and Low default portfolios. Notably for high default portfolios (Retail, SME and Mid corporate) the internal historical data have been used to estimate, at cluster level (Country/Asset Class) direct relationship between default and recovery rate and macro-economic factors. However with regard the low default portfolios (e.g. Multinational, Banks, Sovereigns) for which no enough internal data are available, the historical financial statements are used to model a relationship between key financial items (which are inputs of the rating systems) and macro-economic factors. The projected key rating drivers, based on the macro-economic factors, are then used as input of the Internal Rating System in order to obtain the final stressed PD/LGD at counterparty level. Stress testing exercises is performed twice a year based on three scenarios both for normative (Pillar 1) and economic (Pillar 2) perspective. Pillar 1 stressed metrics (LLP and RWA) are calculated according to the EBA methodology. Pillar 2 stress metrics (EC and AFR) are calculated according to the following methodology:

- Credit Economic Capital: Stressed PDs and LGDs are used as a basis to recalculate VaR and Economic Capital with CPM tool in each of the stressed scenarios. The Stressed Value at Risk refers to a VaR simulation where the underlying risk factors are stressed from normal to adverse case. In particular, the Stressed Value at Risk is intended to replicate a Value at Risk calculation that would be generated on the bank's current portfolio if the relevant risk factors were experiencing a period of stress. Credit risk concentrations (both name and sector concentrations) are also detected by the CPM itself. With this exercise they are further analysed in an adverse economic scenario as requested by the regulation;
- AFR: the amount stemming from the difference between the Stressed Expected Loss (calculated based on PD-TTC and LGD-TTC) and the actual Expected losses is deducted from AFR.

### 2.2.7 Acquisition of impaired loans

The Bank usually does not acquire impaired loans. The positions reported as such in the tables of the Notes to the Financial Statements in relation to item "70. Loans to customers" are part of larger transactions involving the acquisition of loan portfolios, whose objectives cannot be classified among those relating to a specific acquisition of impaired positions.

### 2.3 Credit Risk Mitigation Techniques

UniCredit S.p.A. uses various credit risk mitigation techniques to reduce potential credit losses in case of the obligor default. Consistently with the regulatory requirements, UniCredit S.p.A. is firmly committed to satisfy the requirements for recognition of Credit Risk Mitigation techniques for regulatory capital purposes, according to the different approaches adopted (Standardised, Foundation IRB or Advanced IRB) both for internal use in operations and for the purposes of calculating the credit risk capital requirements.

With specific reference to Credit Risk Mitigation, general guidelines are in force, issued by UniCredit S.p.A., to lay down Group-wide rules and principles that should guide, govern and standardise the credit risk mitigation management, in line with Group principles and best practice, as well as in accordance with the relevant regulatory requirements.

In addition to the general guidelines on risk mitigation techniques, UniCredit S.p.A. has issued internal regulations, specifying processes, strategies and procedures for the management of collateral. In particular, these regulations detail the rules on the eligibility, valuation and management of collateral, ensuring that the guarantee is valid, legally enforceable and can be promptly recovered in accordance with the local legal system of each country.

UniCredit S.p.A. performs periodical assessment activities on the management of guarantees and compliance checks on risk mitigation techniques, in particular with respect to the application of internal rating systems, in order to verify that adequate documentation and formal procedures are in place for the use of risk mitigation techniques for the purpose of calculating regulatory capital.

According to credit policy, collaterals or guarantees can be accepted only to support loans and they cannot serve as a substitute for the borrower's ability to meet obligations. For this reason, in addition to the overall analysis of the credit worthiness and of the repayment capacity of the borrower, they are subject to specific evaluation and analysis of the support role for the repayment of the exposure.

Collaterals accepted in support of credit lines primarily include real estate, both residential and commercial, financial collateral (including cash deposits, debt securities, equities, and units of Undertakings for Collective Investment in Transferable Securities - UCITS). Other types of collateral (pledged goods or pledged loans and life insurance policies) are less common. UniCredit S.p.A. also makes use of bilateral netting agreements for derivative transactions (by means of ISDA and CSA agreements), Repos and securities lending.

The management system of credit risk mitigation techniques is embedded in the credit approval process and in the credit risk monitoring process, which widely support the evaluation and data quality checks of collaterals/guarantees and their appropriate linking to the categories defined for LGD estimates purposes. Controls and related responsibilities are duly formalised and documented in internal rules and operative procedures. Furthermore processes are implemented to monitor all the relevant information regarding the identification and evaluation of the credit protection and to ensure it is correctly registered in the system.

When accepting a credit risk mitigation technique, UniCredit S.p.A. gives particular importance to processes and controls of the legal certainty requirements of the protection, as well as the assessment of the suitability of the collateral or guarantee. In case of personal guarantees, the protection provider (or the protection seller in case of credit default swap) has to be assessed in order to measure his/her solvency and risk profile. In particular for the personal guarantees, UniCredit S.p.A. in order to support the underwriting and monitoring activities, has adopted an internal model for the guarantor evaluation.

In case of collaterals, the process of valuation is based on precautionary principles, with reference to the use of "market values" and to the application of adequate haircuts to ensure that, in case of liquidation, there are no unexpected losses on secured credit.

Monitoring processes of credit risk mitigation techniques ensure that general and specific requirements established by credit policies, internal and regulatory rules are met over the time.

#### *2.4 Non-Performing Exposures*

The Group's approach to the Non-Performing portfolio is based on the following fundamental aspects:

- prompt action, using a solid and effective monitoring and reporting process. The early identification of possible credit quality deterioration allows the Group to put in place the necessary restrictive management measures aimed at risk reduction in the early phases prior to the potential default;
- proper assessment of the non-performing loans, in order to define the strategies and actions to be taken and the applicable default classification;
- initiating focused recovery procedures on the basis of the type and amount of exposure and the specific characteristics of the obligor;
- appropriate provisioning through profit and loss, in line with the relevant recovery strategies and plans as well as the type of exposure. Provisioning is carried out in line with the principles of IAS39 and Basel II rules;
- accurate and regular reporting in order to monitor aggregate portfolio risk over time.

UniCredit, in its role as Holding Company, has issued a Global Policy to provide group-wide guidelines on principles for the categorisation of loans, with the aim to:

- acknowledge the new loans categorisation introduced by the European Banking Association (EBA);
- harmonise different local practices on loans categorisation where not deriving from specific requirements of the local Regulator;
- provide rules to cluster the local loans categories into the ones required for regulatory reporting and financial statements disclosure at UniCredit group consolidated level, in line with Banca d'Italia regulation.

## Part E - Information on risks and hedging policies

In order to strengthen the Group Governance regarding the Non-Performing Exposures (NPE), under the direct responsibility of Group Chief Risk Officer the following structure/committee have been set up:

- “Group NPE” structure to develop the strategy and oversee the management, process, targets and disposals of Non-Performing Exposures, repossessed assets and any other distressed assets for the entire Group;
- “Group NPE Governance Committee” to ensure, at Group level, the steering, the coordination and the control of NPE Strategy and targets as well as an effective alignment on common goals between the Holding Company and other Legal Entities.

Part of “Group NPE” is the specialised “Group Distressed Asset Solutions” structure assessing and initiating alternative strategies to the conventional solutions, aimed at selling portfolios or individual exposures on the secondary market, also through securitisation.

UniCredit also adopts alternative recovery strategies, such as restructuring joint ventures focusing on specific sectors, as well as other outsourcing or benchmarking measures to leverage market expertise as promptly as possible. The sale of non-performing exposures is carried out by using a competitive auction mechanism. A full costing analysis is performed to assess how effective this will be, with the objective of maximising the net present value for the Group. The “Group Distressed Asset Solutions” structure has a coordinating role within the Group’s Risk Management and, with respect to the Italian and Foreign Entities, it implements strategies and finalises asset sales, according to what was approved by the relevant governing bodies.

Moreover, within Transform 2019, the “NPE Transformation Program” has been launched in order to address the goals on asset quality of the strategic plan “Transform 2019” and to progressively converge towards the “Guidance to banks on non-performing loans” issued by The European Central Bank in March 2017. The “NPE Operational Plan” of UniCredit S.p.A. for 2017-2019, approved by Board of Director and sent to the European Central Bank in April 2017, is currently being executed with a continuous alignment with the Supervisory Authority.

The classification in the different “impaired” classes must be done in accordance with legal and regulatory provisions issued by the local Supervisory Authorities. The regulation regarding the impaired loans is the Circular issued by Banca d’Italia (No.272 of 30 July 2008 - “Accounts Matrix”) in accordance with the EBA standard (EBA/ITS/2013/03/rev1 24/7/2014) that reviewed in 2014 the classification of impaired loans for regulatory and Supervisory reporting purposes.

The regulatory framework related to definition of “default” has been evolving following the issuance of the “Guidelines on the application of the definition of default under Article 178 of Regulation (EU) 575/2013”, on 28 September 2016, by EBA, after a consultation process ended up 22 January 2016. The Paper defines specific and homogeneous criteria at European level on the classification of “Past Due” exposures and “Unlikely to Pay” exposures, ruling also the principles underlying the regulatory re-classification to “bonis”. The first application of this guidelines is planned within January 2021. Simultaneously, EBA issued new guidelines on the materiality threshold of past due exposures (“Draft Regulatory Technical Standards on the materiality threshold for credit obligations past due under Article 178 of Regulation (EU) No 575/2013”), whose consultation process was concluded on 31 January 2015. As expected by EBA, the National Competent Authorities will define the new rules to determine past due exposures coherently with the threshold ranges provided by EBA in the RTS final paper.

Banca d’Italia Circular:

- allocates impaired loans into the categories of bad loans, unlikely to pay and past-due loans. The total of these classes corresponds to the overall amount of Non-Performing Exposures mentioned in the ITS EBA standards;
- eliminates the previous concepts of doubtful and restructured loans including them in the new categorise of “unlikely to pay”;
- introduces the qualification of forbome exposures in accordance with the definition of “Forbome exposures” as ruled with EBA Implementing Technical Standards (EBA/ITS/2013/03/rev1 24/7/2014) (see next paragraph).

### *Loan Categorisation in the risk categories and forbome exposures*

In accordance with EBA Implementing Technical Standards, a transaction has to be considered as forbome when both of the following conditions are simultaneously met:

- a concession exits, either (i) contractual modification in favor of the debtor or (ii) refinancing aimed at ensuring the repayment of preexisting obligation;
- the debtor is facing or about to face financial difficulties.

In order to progressively converge to the above-mentioned regulatory provisions, UniCredit S.p.A:

- launched some activities to align the currently exiting credit process to the new classification rules;
- defined a monitoring process of the dynamics of Forbome Exposures;
- ensured necessary Reporting to the Supervisory Authority.

To assess the existence of a concession, the approach adopted by UniCredit group has enabled the tracking of a concession when:

- the loan is renegotiated through collective agreements, or through internal initiatives supporting certain debtors categories, or through initiatives designed to support the debtor in case of natural disasters;
- the installment/repayment plan of a loan is changed;
- pool loans are subject to renegotiation;
- the loan is subject to a refinancing practice.

For the evaluation of debtor's financial difficulty, UniCredit submits the positions (subject to concession) to an ad hoc test based on specific objective criteria (i.e. Troubled Debt Test).

In March 2017 the European Central Bank issued the final version of the document "Guidance to Banks on Non-Performing Loans" which holistically includes the guidelines defined by the Supervisory Authority on Non Performing Exposures. The Paper, that will become effective starting from 2018, layouts specific recommendations to Banks for the definition of a clear NPL Strategy which, coherently with the industrial plan, ultimately aims at the reduction of NPE Stock, by means of ad hoc risk management initiatives.

#### *Impaired assets acquired*

Impaired loans acquired were recognised under item "70. Loans and receivables with customers" for €10,383 thousand with a decrease of €12,717 thousand (-55.05%) compared to 31 December 2016 (€23,100 thousand).

These loans were acquired as part of the following transactions:

- the acquisition in 2011 of a loan portfolio from Banca MB S.p.A. (total face value of €414,543 thousand at a price of €246,052 thousand, including impaired loans with a face value of €299,223 thousand at a price of €152,512 thousand). The loans deriving from the financing disbursed by Banca MB under administrative compulsory liquidation were acquired;
- the acquisition in 2011 of a loan portfolio from Oney S.p.A. (overall face value of €21,143 thousand, at a price of €19,041 thousand, including impaired loans totaling €148 thousand at a price of €121 thousand). The loans were acquired as part of the acquisition of a credit card portfolio from Oney S.p.A.;
- the acquisition in 2013 of a portfolio of impaired loans from Island Refinancing S.r.l. (overall face value of €88,532 thousand at a price of €27,766 thousand). The loans were acquired as part of a Settlement Agreement, relating to previous agreements/contracts entered into by the merged company Banco di Sicilia S.p.A.

The above loans were measured in accordance with the measurement criteria used for all impaired loans and receivables with customers recognised in the Financial Statements.

The table below shows the changes in "Impaired loans acquired" (face value, purchase price, carrying amount), broken down by individual transaction:

#### **Impaired assets acquired**

(€ '000)

	ACQUISITION DATE		12.31.2016		12.31.2017		CHANGE	
	FACE	PURCHASE	FACE	CARRYING	FACE	CARRYING	FACE	CARRYING
	AMOUNT	PRICE	VALUE <sup>(*)</sup>	AMOUNT	VALUE <sup>(*)</sup>	AMOUNT	VALUE <sup>(*)</sup>	AMOUNT
Banca MB S.p.A.	299,223	152,512	122,482	14,440	11,235	1,394	-111,247	-13,046
Oney S.p.A.	148	121	40	3	14	1	-26	-2
Island Refinancing S.r.l.	88,532	27,766	46,789	8,657	43,956	8,988	-2,833	331
<b>Total</b>	<b>387,903</b>	<b>180,399</b>	<b>169,311</b>	<b>23,100</b>	<b>55,205</b>	<b>10,383</b>	<b>-114,106</b>	<b>-12,717</b>

Note:

(\*) Inclusive of default interest accrued.

## Part E - Information on risks and hedging policies

### Quantitative information

#### A. Credit quality

For the purposes of the disclosure of quantitative information about credit quality, the term "credit exposures" does not include equity instruments and units in investment funds except for table A.2.1 - Balance Sheet and off-Balance Sheet credit exposure by external rating class, in which units in investment funds are included.

#### A.1 Non-Performing and performing credit exposures: amounts, write-downs, changes, economic and geographical distribution

##### A.1.1 Breakdown of credit exposures by portfolio and credit quality (carrying value)

(€ '000)

PORTFOLIOS/QUALITY	BAD EXPOSURES	UNLIKELY TO PAY	NON-PERFORMING PAST-DUE EXPOSURES	PERFORMING PAST-DUE EXPOSURES	OTHER PERFORMING EXPOSURES	TOTAL
1. Available-for-sale financial assets	1	26,318	-	-	57,032,712	57,059,031
2. Held-to-maturity financial instruments	-	-	-	-	762,431	762,431
3. Loans and receivables with banks	-	4,998	-	-	27,561,763	27,566,761
4. Loans and receivables with customers	5,638,468	7,923,599	335,557	4,337,794	190,730,037	208,965,455
5. Financial assets at fair value	-	22,374	-	-	63,391	85,765
6. Financial instruments classified as held for sale	-	54,553	-	-	-	54,553
<b>Total 12.31.2017</b>	<b>5,638,469</b>	<b>8,031,842</b>	<b>335,557</b>	<b>4,337,794</b>	<b>276,150,334</b>	<b>294,493,996</b>
<b>Total 12.31.2016</b>	<b>8,367,759</b>	<b>9,485,659</b>	<b>371,603</b>	<b>4,797,232</b>	<b>277,083,117</b>	<b>300,105,370</b>

##### Breakdown of credit exposures by portfolio and credit quality - Forborne exposures (carrying value)

(€ '000)

PORTFOLIOS/QUALITY	BAD EXPOSURES	UNLIKELY TO PAY	NON-PERFORMING PAST-DUE EXPOSURES	PERFORMING PAST-DUE EXPOSURES	OTHER PERFORMING EXPOSURES	TOTAL
1. Available-for-sale financial assets	-	-	-	-	-	-
2. Held-to-maturity financial instruments	-	-	-	-	-	-
3. Loans and receivables with banks	-	-	-	-	-	-
4. Loans and receivables with customers	485,935	5,083,890	18,604	1,356,312	2,022,257	8,966,998
5. Financial assets at fair value	-	-	-	-	-	-
6. Financial instruments classified as held for sale	-	54,553	-	-	-	54,553
<b>Total 12.31.2017</b>	<b>485,935</b>	<b>5,138,443</b>	<b>18,604</b>	<b>1,356,312</b>	<b>2,022,257</b>	<b>9,021,551</b>
<b>Total 12.31.2016</b>	<b>421,555</b>	<b>5,104,523</b>	<b>26,490</b>	<b>1,619,992</b>	<b>2,006,801</b>	<b>9,179,361</b>

See table A.1.3 and A.1.6 for more details about volumes of forborne exposures.

##### Breakdown of performing past-due credit exposures by portfolio and past-due bucket (gross value)

(€ '000)

PORTFOLIOS/QUALITY	PAST-DUE LESS THAN 30 DAYS	PAST-DUE BETWEEN 30 AND 60 DAYS	PAST-DUE BETWEEN 60 AND 90 DAYS	PAST-DUE OVER 90 DAYS	TOTAL
1. Available-for-sale financial assets	-	-	-	-	-
2. Held-to-maturity financial instruments	-	-	-	-	-
3. Loans and receivables with banks	-	-	-	-	-
4. Loans and receivables with customers	1,434,308	1,008,387	366,806	1,744,691	4,554,192
5. Financial assets at fair value	-	-	-	-	-
6. Financial instruments classified as held for sale	-	-	-	-	-
<b>Total 12.31.2017</b>	<b>1,434,308</b>	<b>1,008,387</b>	<b>366,806</b>	<b>1,744,691</b>	<b>4,554,192</b>
<b>Total 12.31.2016</b>	<b>1,100,080</b>	<b>902,799</b>	<b>1,034,403</b>	<b>1,970,472</b>	<b>5,007,754</b>

The amounts past due over 90 days refer to loans that do not meet the definition of Non-Performing past due (below the materiality threshold).



### A.1.2 Breakdown of credit exposures by portfolio and credit quality (gross and net values)

(€ '000)

PORTFOLIOS/QUALITY	NON-PERFORMING ASSETS			PERFORMING ASSETS			12.31.2017 TOTAL (NET EXPOSURE)
	GROSS EXPOSURE	SPECIFIC WRITEDOWNS	NET EXPOSURE	GROSS EXPOSURE	PORTFOLIO ADJUSTMENTS	NET EXPOSURE	
1. Available-for-sale financial assets	46,361	20,042	26,319	57,032,712	-	57,032,712	57,059,031
2. Held-to-maturity financial instruments	-	-	-	762,431	-	762,431	762,431
3. Loans and receivables with banks	6,524	1,526	4,998	27,568,727	6,964	27,561,763	27,566,761
4. Loans and receivables with customers	32,688,524	18,790,900	13,897,624	195,984,150	916,319	195,067,831	208,965,455
5. Financial assets at fair value	23,469	1,095	22,374	X	X	63,391	85,765
6. Financial instruments classified as held for sale	88,351	33,798	54,553	-	-	-	54,553
<b>Total 12.31.2017</b>	<b>32,853,229</b>	<b>18,847,361</b>	<b>14,005,868</b>	<b>281,348,020</b>	<b>923,283</b>	<b>280,488,128</b>	<b>294,493,996</b>
<b>Total 12.31.2016</b>	<b>53,910,276</b>	<b>35,685,255</b>	<b>18,225,021</b>	<b>282,886,082</b>	<b>1,011,471</b>	<b>281,880,349</b>	<b>300,105,370</b>

As part of the 2016-2019 Industrial Plan UniCredit S.p.A. in the fourth quarter 2016 started with the "Project FINO" (hereinafter, also "Project") aims to dispose of a portion of the "non-core" assets of the UniCredit group through a market transaction including a set of credit exposures classified as non-performing, referring to various sectors, collected within a portfolio called "FINO portfolio" as described in UniCredit's Financial Statements as at 31 December 2016 and in the Explanatory Notes of the Consolidated First Half Financial Report as at 30 June 2017 at the bottom of Table "A.1.2 - Breakdown of credit exposures by portfolio and credit quality (gross and net amounts)".

In particular, the FINO Portfolio consists in customer loans and receivables due to UniCredit S.p.A. and Arena NPL One S.r.l. (transferee Vehicle for securitised receivables originated by the Bank and for which the latter holds 100% of the asset-backed securities issued), which were recognised in UniCredit S.p.A.'s Balance Sheet in a coherent manner.

The Project consists of 2 phases, whose guidelines were defined in the Framework Agreements signed by UniCredit S.p.A. in December 2016 (also in its capacity as Sole Note-holder of the securities issued by Arena NPL One S.r.l.) and by qualified third-party Investors (Pimco and Fortress):

- **"Phase 1"**, which covers the launch of one or several securitisation transactions through the establishment of several Special Purpose Vehicles ("SPVs" or "Vehicles") as buyers of the receivables held for sale. SPVs were expected to constitute separate "silos" depending on the loan funds in the portfolio purchased, issuing, for each of them, Senior, Mezzanine and Junior asset-backed securities (ABSs) with different levels of subordination. It was provided that 50.1% of each class of the aforementioned securities would have been underwritten by third-party Investors (related to Pimco and Fortress), whilst the remaining 49.9% by UniCredit S.p.A.;
- **"Phase 2"**, for which the parties had previously identified in the relevant Framework Agreements guidelines and strategies aimed at considering, inter alia: (a) UniCredit's S.p.A.'s gradual disposal of the securities it had underwritten, also to third-party Investors, in compliance with the requirement for UniCredit to maintain a net economic interest in the securitisation transactions identified by each Framework Agreement in line with applicable statutory regulations; and (b) the optimisation of the financial structure of the securities issued as part of "Phase 1", including any obtainment of a guarantee on securitisations of non-performing loans ("GACS") by the Italian Ministry of the Economy and Finance ("MEF").

**By third quarter of 2017 and in compliance with the transaction's time scales, the "Phase 1" of the FINO Project** (hereinafter also the "Project") **has been completed**. In particular, on 17 July 2017 UniCredit S.p.A. announced the subscription of the final agreements for the disposal of the FINO Portfolio with Pimco and Fortress. Pursuant to these agreements, the Securitisation Vehicles have purchased the receivables included in the portfolio for the various sectors (sub-portfolios) relating to the relevant interests of Pimco and Fortress, as set out in the contractual documentation (Transfer Agreements) signed on 14 July 2017 by the Bank and Onif Finance S.r.l. (whose ABSs were partially subscribed by an entity belonging to the Pimco group), and by the Bank and Arena NPL One S.r.l., on the one side, and Fino 1 Securitisation S.r.l. and Fino 2 Securitisation S.r.l. on the other side (whose ABSs were partially subscribed by entities belonging to the Fortress group). Securitisation transactions were finalised by the end of July 2017 with the signing of the remaining contractual documentation which allowed on the one side the accounting derecognition of the underlying assets of the FINO Portfolio (previously recognised in "Non-current assets and disposal groups classified as held for sale") from the Balance Sheet assets of UniCredit S.p.A., and on the other side, the issue of the Asset-Backed Securities (ABS) by the SPVs and its subscription by UniCredit S.p.A. (49.9% of all the classes of the ABSs issued) and by third-party Investors (50.1% of all the classes of the ABSs issued).

In this regard, it should be noted that the Senior and Mezzanine tranches held by the Bank have been classified in item "40. Available-for-sale financial assets", while the Junior tranches have been classified in item "30. Financial assets at fair value through profit or loss" at an initial fair value aligned with nominal value of €796 million (for the ABSs classified as "Available-for-sale financial assets") and €85 million (for the securities classified as "Financial assets at fair value through profit or loss"), respectively.

## Part E - Information on risks and hedging policies

In line with the contractual documentation, the 50.1% stake subscribed by third-party Investors was also settled (by around 60% of its amount) through a Deferred Subscription Price (DSP) versus each SPV, whose mechanism provides for a term of maximum three years and no interest. The DSP of each SPV was subject to the assumption that third-party entities belonging to the relevant third-party Investor's groups, with suitable credit rating and a capital structure that can guarantee that the repayment of the DSP does not depend, either in full or mainly, on the payment of ABSs, fully assumed the obligation to pay any amounts due as DSP. Each DSP was also assigned without recourse by the Vehicles to UniCredit S.p.A. as consideration for the purchase of their respective sub-portfolios of receivables, and has been recognised as Deferred Purchase Price (DPP) in UniCredit S.p.A.'s Balance Sheet. Due to their special features, the DPPs have been classified in item "70. Loans and receivables with customers" at their fair value, and evaluated at amortised cost based on the future cash flows estimated during their duration, as required by IAS39. As at 31 December 2017, the Deferred Purchase Prices have been presented in UniCredit S.p.A.'s Balance Sheet for a total amount of €497 million. Additional to those described in the Consolidated First Half Financial Report as at 30 June 2017, in the third quarter 2017 negative economic effects have been recognised for about €36 million (mainly relating to the evaluation of the abovementioned DPPs and some negative income components relating to the FINO Project) and for other one-off charges amounting to €80 million. In addition, in the fourth quarter 2017, positive economic effects for about €6 million have been recognised regarding other adjustments relating to the transaction.

During fourth quarter 2017, **under Project FINO "Phase 2" aimed to finalise disposals** to third-party investors, in compliance with the requirement for the Bank to maintain a net economic interest in the securitisation transaction according to regulatory requirements, **to reduce the securities UniCredit S.p.A. had underwritten below 20% of overall issued Notes**, it has been:

- completed the optimisation of the financial structure of the securities issued by Fino 1 Securitisation S.r.l. vehicle to which, exclusively for the Class A, Class B and Class C instruments, DBRS and Moody's Investor Services assigned the final ratings (respectively BBB (high), BB (high) and BB [assigned] by DBRS and A2, Ba3 and B1 from Moody's);
- obtained following the MEF Decree on 20 December 2017, the Guarantee for the Securitisation of Non-performing loans (GACS) on the most senior tranche (Class A or "Senior Guaranteed Notes") issued by the aforementioned vehicle;
- finalised the sale to Generali Investment Europe (GIE) of 30% of the Notes issued by Onif Finance S.r.l., settled on 7 December 2017;
- signed a placement agreement including a backstop facility and, by January 2018, completed the placement, net of the 5% retained portion according to the regulatory requirements, of the Senior Guaranteed Notes issued by Fino 1 Securitisation S.r.l. through a syndicate composed by HSBC, Natixis, Natwest, Mediobanca and UniCredit Bank AG with settlement on 25 January 2018, and;
- signed binding agreements with funds managed by King Street Capital Management L.P and Fortress Group for the sale of portion of Class B, Class C and Class D notes (the "Other Notes") issued by Fino 1 Securitisation S.r.l. and Fino 2 Securitisation S.r.l. with settlement on 29 and 30 January 2018.

No significant economic impacts in 2017 from the sale of the Notes occurred in the fourth quarter of 2017 and from the valuation of the remaining amounts held by UniCredit S.p.A.

In this regard, it should be noted that the valuation of the Notes as at 31 December 2017 held by UniCredit S.p.A. has been made referring the values of the transactions defined with the third-party counterparties (Fair value L2), excluding the Senior tranche issued by the SPV Fino 2 Securitisation S.r.l., which has been valued on the basis of an internal model (Fair value L3) for an amount substantially aligned with its nominal value.

### Breakdown of credit exposures by portfolio and credit quality - Financial assets held for trading and Hedging instruments (gross and net values)

(€ '000)

PORTFOLIOS/QUALITY	LOW CREDIT QUALITY ASSETS		OTHER ASSETS
	CUMULATED LOSSES	NET EXPOSURE	NET EXPOSURE
1. Financial assets held for trading	30,563	38,343	13,825,436
2. Hedging derivatives	-	-	4,399,939
<b>Total</b>	<b>30,563</b>	<b>38,343</b>	<b>18,225,375</b>
<b>Total</b>	<b>50,927</b>	<b>74,661</b>	<b>20,047,584</b>

### Write-Offs (Long life criteria)

ACCOUNTING PORTFOLIOS	TOTAL IMPAIRED PARTIAL WRITE OFF
<b>A.1 Available-for-sale financial assets</b>	-
- Banks	-
- Customers	-
<b>A.2 Held-to-maturity financial instruments</b>	-
- Banks	-
- Customers	-
<b>A.3 Loans and receivables with banks</b>	-
<b>A.4 Loans and receivables with customers</b>	2,626,997
<b>A.5 Financial assets at fair value through profit or loss</b>	-
- Banks	-
- Customers	-
<b>A.6 Financial instruments classified as held for sale</b>	-
- Banks	-
- Customers	-
<b>Total with banks</b>	-
<b>Total with customers</b>	2,626,997

The partial write-offs carried out on Non-Performing assets amounted to €2,627 million, attributable to bad loans and other revoked Non-Performing loans, with a decrease of -€5,589 million compared to 31 December 2016.

#### A.1.3 On- and off-balance sheet credit exposure with banks: gross and net values and past-due buckets

(€ '000)

EXPOSURE TYPES/AMOUNTS	AMOUNT AS AT 12.31.2017					PERFORMING ASSETS	SPECIFIC WRITEDOWNS	PORTFOLIO ADJUSTMENTS	NET EXPOSURE
	GROSS EXPOSURE								
	NON-PERFORMING ASSETS				PAST-DUE OVER 1 YEAR				
PAST-DUE LESS THAN 90 DAYS	PAST-DUE BETWEEN 90 AND 180 DAYS	PAST-DUE BETWEEN 180 DAYS AND 1 YEAR							
<b>A. On-balance sheet exposures</b>									
a) Bad exposures	-	-	-	309		X	309	X	-
- of which: forbore exposures	-	-	-	-		X	-	X	-
b) Unlikely to pay	-	6,172	-	18		X	1,192	X	4,998
- of which: forbore exposures	-	-	-	-		X	-	X	-
c) Non-Performing past due	-	-	-	25		X	25	X	-
- of which: forbore exposures	-	-	-	-		X	-	X	-
d) Performing past-due	X	X	X	X		-	X	-	-
- of which: forbore exposures	X	X	X	X		-	X	-	-
e) Other performing exposures	X	X	X	X	30,838,584		X	6,964	30,831,620
- of which: forbore exposures	X	X	X	X		-	X	-	-
<b>Total A</b>	-	6,172	-	352	30,838,584		1,526	6,964	30,836,618
<b>B. Off-balance sheet exposures</b>									
a) Non-Performing	4,667	-	-	-		X	2,334	X	2,333
b) Performing	X	X	X	X	13,847,259		X	6,179	13,841,080
<b>Total B</b>	4,667	-	-	-	13,847,259		2,334	6,179	13,843,413
<b>Total (A+B)</b>	4,667	6,172	-	352	44,685,843		3,860	13,143	44,680,031

On-balance sheet exposures to customers include all balance-sheet assets, including held-for-trading, available-for-sale, held-to-maturity assets, loans, assets at fair value through profit or loss and assets held for sale.

Off-balance sheet exposures towards banks comprise guarantees given, irrevocable commitments and derivatives regardless of each transaction's classification category; the revocable commitments to disburse funds (not included in the off-balance sheet exposures) amount to €26,976 million.

## Part E - Information on risks and hedging policies

## A.1.4 On-balance sheet credit exposures with banks: gross changes in Non-Performing exposures

(€ '000)

SOURCE/CATEGORIES	CHANGES IN		NON PERFORMING PAST-DUE
	BAD EXPOSURES	UNLIKELY TO PAY	
<b>A. Opening balance (gross amount)</b>	<b>309</b>	<b>2,351</b>	<b>26</b>
- of which sold but not derecognised	-	-	-
<b>B. Increases</b>	-	<b>6,178</b>	-
B.1 transfers from Performing loans	-	6,172	-
B.2 transfers from other Non-Performing exposures	-	-	-
B.3 other increases	-	6	-
- of which: business combinations	-	-	-
<b>C. Reductions</b>	-	<b>2,339</b>	<b>1</b>
C.1 transfers to Performing loans	-	-	1
C.2 write-offs	-	-	-
C.3 recoveries	-	2,002	-
C.4 sales proceeds	-	-	-
C.5 losses on disposals	-	-	-
C.6 transfers to other Non-Performing exposures	-	-	-
C.7 other decreases	-	337	-
- of which: business combinations	-	-	-
<b>D. Closing balance (gross amounts)</b>	<b>309</b>	<b>6,190</b>	<b>25</b>
- of which sold but not derecognised	-	-	-

## A.1.4bis On-balance sheet credit exposures with banks: gross changes by credit quality in forborne exposures

(€ '000)

SOURCE/CATEGORIES	CHANGES IN	
	FORBORNE EXPOSURES: NON PERFORMING	FORBORNE EXPOSURES: PERFORMING
<b>A. Opening balance (gross amount)</b>	-	-
- of which sold but not derecognised	-	-
<b>B. Increase variations</b>	-	-
B.1 transfers from Performing not forborne	-	-
B.2 transfers from Performing forborne	-	X
B.3 transfers from Non-Performing forborne	X	-
B.4 other increases	-	-
- of which: business combinations	-	-
<b>C. Reduction</b>	-	-
C.1 transfers to Performing not forborne	X	-
C.2 transfers to Performing forborne	-	X
C.3 transfers to Non-Performing forborne	X	-
C.4 write-offs	-	-
C.5 recoveries	-	-
C.6 sales proceeds	-	-
C.7 losses from disposals	-	-
C.8 other reductions	-	-
- of which: business combinations	-	-
<b>D. Closing balance (gross amounts)</b>	-	-
- of which sold but not derecognised	-	-

**A.1.5 On-balance sheet Non-Performing credit exposures with banks: change in overall impairments**

(€ '000)

SOURCE/CATEGORIES	CHANGES IN 2017					
	NON-PERFORMING LOANS	OF WHICH FORBORNE EXPOSURES	UNLIKELY TO PAY	OF WHICH FORBORNE EXPOSURES	NON PERFORMING PAST-DUE	OF WHICH FORBORNE EXPOSURES
<b>A. Opening balance (gross amount)</b>	309	-	1,024	-	26	-
- of which sold but not derecognised	-	-	-	-	-	-
<b>B. Increases</b>	-	-	1,175	-	-	-
B.1 writedowns	-	-	1,175	-	-	-
B.2 losses on disposal	-	-	-	-	-	-
B.3 transfers from other Non-Performing exposure	-	-	-	-	-	-
B.4 other increases	-	-	-	-	-	-
- of which: business combinations	-	-	-	-	-	-
<b>C. Reductions</b>	-	-	1,007	-	1	-
C.1 write-backs from assessments	-	-	1,007	-	-	-
C.2 write-backs from recoveries	-	-	-	-	-	-
C.3 gains on disposal (-)	-	-	-	-	-	-
C.4 write-offs	-	-	-	-	-	-
C.5 transfers to other Non-Performing exposures	-	-	-	-	1	-
C.6 other decreases	-	-	-	-	-	-
- of which: business combinations	-	-	-	-	-	-
<b>D. Closing balance (gross amounts)</b>	309	-	1,192	-	25	-
- of which sold but not derecognised	-	-	-	-	-	-

**A.1.6 On- and off-balance sheet credit exposure with customers: gross and net values and past-due buckets**

(€ '000)

EXPOSURE TYPES/AMOUNTS	AMOUNT AS AT 12.31.2017							
	GROSS EXPOSURE				PERFORMING ASSETS	SPECIFIC WRITEDOWNS	PORTFOLIO ADJUSTMENTS	NET EXPOSURE
	PAST DUE LESS THAN 90 DAYS	PAST-DUE BETWEEN 90 AND 180 DAYS	PAST-DUE BETWEEN 180 DAYS AND 1 YEAR	PAST-DUE OVER 1 YEAR				
<b>A. On-balance sheet exposures</b>								
a) Bad exposures	33,749	36,922	107,275	17,564,295	X	12,103,773	X	5,638,468
- of which: forborne exposures	2,509	4,932	46,025	1,315,196	X	882,727	X	485,935
b) Unlikely to pay	618,024	623,207	1,243,574	12,068,130	X	6,526,091	X	8,026,844
- of which: forborne exposures	370,711	429,514	794,461	7,364,399	X	3,820,642	X	5,138,443
c) Non-Performing past-due	-	97,755	207,093	246,681	X	215,972	X	335,557
- of which: forborne exposures	-	7,434	9,874	7,554	X	6,258	X	18,604
d) Performing past-due	X	X	X	X	4,554,192	X	216,398	4,337,794
- of which: forborne exposures	X	X	X	X	1,470,885	X	114,573	1,356,312
e) Other performing exposures	X	X	X	X	254,146,221	X	699,921	253,446,300
- of which: forborne exposures	X	X	X	X	2,106,786	X	84,529	2,022,257
<b>Total A</b>	<b>651,773</b>	<b>757,884</b>	<b>1,557,942</b>	<b>29,879,106</b>	<b>258,700,413</b>	<b>18,845,836</b>	<b>916,319</b>	<b>271,784,963</b>
<b>B. Off-balance sheet exposures</b>								
a) Non-Performing	1,459,612	-	-	-	X	260,105	X	1,199,507
b) Performing	X	X	X	X	63,447,913	X	36,875	63,411,038
<b>Total B</b>	<b>1,459,612</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>63,447,913</b>	<b>260,105</b>	<b>36,875</b>	<b>64,610,545</b>
<b>Total (A+B)</b>	<b>2,111,385</b>	<b>757,884</b>	<b>1,557,942</b>	<b>29,879,106</b>	<b>322,148,326</b>	<b>19,105,941</b>	<b>953,194</b>	<b>336,395,508</b>

On-balance sheet exposures to customers include all balance-sheet assets, including held-for-trading, available-for-sale, held-to-maturity assets, loans, assets at fair value through profit or loss and assets held for sale.

## Part E - Information on risks and hedging policies

Off-balance sheet exposure to customers comprises guarantees given, irrevocable commitments and derivatives regardless of each transaction's classification category; the revocable commitments to disburse funds (not included in the off-balance sheet exposures) amount to €80,158 million.

The gross exposure of credit derivatives for which protection has been sold corresponds to (i) the sum of the face value and the positive fair value in respect of total rate of return swaps, (ii) to positive fair value in respect of credit spread swaps and (iii) to the notional value in respect of credit default products and credit linked notes.

On-balance sheet impaired gross exposures connected to the proposals for recourse to an arrangement with creditors made by the debtor, for the positions that have been converted into a Debt restructuring agreement pursuant to article 182-bis of the Bankruptcy Law or continuity of business, as well as the positions not yet assigned or with liquidatory purposes, amounted to a total of €2,651 million at 31 December 2017, against which specific impairments have been made for €1,820 million, with a total coverage level of 68.7%.

### A.1.7 On-balance sheet credit exposures with customers: gross changes in Non-Performing exposures

(€ '000)

SOURCE/CATEGORIES	CHANGES IN 2017		
	BAD EXPOSURES	UNLIKELY TO PAY	NON-PERFORMING PAST DUE
<b>A. Opening balance (gross amount)</b>	<b>36,200,258</b>	<b>17,090,028</b>	<b>617,304</b>
- of which sold but not derecognised	450,759	633,615	25,764
<b>B. Increases</b>	<b>2,898,586</b>	<b>6,561,002</b>	<b>1,634,090</b>
B.1 transfers from Performing exposures	41,534	1,808,318	1,537,632
B.2 transfers from other Non-Performing exposures	2,357,758	1,142,220	9,762
B.3 other increases	499,294	3,610,464	86,696
- of which: business combinations	-	-	-
<b>C. Decreases</b>	<b>21,356,603</b>	<b>9,098,095</b>	<b>1,699,866</b>
C.1 transfers to Performing loans (including Performing past-due)	17,820	1,130,296	361,330
C.2 write-offs	16,862,568	859,949	-
C.3 recoveries	1,080,551	2,696,390	185,703
C.4 sales proceeds	2,139,803	202,623	-
C.5 losses on disposals	897,791	97,987	-
C.6 transfers to other Non-Performing exposures	129,043	2,229,178	1,151,518
C.7 other decreases	229,027	1,881,672	1,315
- of which: business combinations	-	-	-
<b>D. Closing balance (gross amounts)</b>	<b>17,742,241</b>	<b>14,552,935</b>	<b>551,528</b>
- of which sold but not derecognised	514,324	1,220,584	9,410

The gross changes in on balance Non-Performing exposures with customers includes the completion of the "Phase 1" of FINO Project, which includes the sale of receivables belonging to the FINO Portfolio through the securitisation transactions completed in July 2017 with the signing of the complete contractual documentation, thus implementing the conditions required by IAS39 for the application of the accounting derecognition from the Balance Sheet of UniCredit S.p.A. of the receivables included in the same Portfolio, since the rights to cash out the cash flows deriving from the Portfolio have been transferred (the receivables were previously recognised in "Non-current assets and disposal groups classified as held for sale"). For the most detailed disclosure on FINO Project, see the information provided in Part E - Information on risks and hedging policies - Section 1- Credit Risk, at the foot of table "A.1.2 - Breakdown of credit exposures by portfolio and credit quality (gross and net values)".

Sub-items "B.3 other increases" and "C.3 recoveries" include amounts recovered during the year concerning impaired exposures which were derecognised in their entirety.

**A.1.7bis On-balance sheet credit exposures with customers: gross changes by credit quality in forborne**

(€ '000)

SOURCE/CATEGORIES	CHANGES IN 2017	
	FORBORNE EXPOSURES: NON PERFORMING	FORBORNE EXPOSURES: PERFORMING
<b>A. Opening balance - gross exposure</b>	<b>10,194,625</b>	<b>3,804,657</b>
- of which sold but not derecognised	377,790	163,749
<b>B. Increases</b>	<b>5,506,151</b>	<b>2,292,135</b>
B.1 transfers from performing not forborne	97,733	1,271,777
B.2 transfers from performing forborne	726,927	X
B.3 transfers from non-performing forborne	X	847,610
B.4 other increases	4,681,491	172,748
- of which: business combinations	-	-
<b>C. Decreases</b>	<b>5,348,167</b>	<b>2,519,121</b>
C.1 transfers to performing not forborne	X	663,386
C.2 transfers to performing forborne	847,610	X
C.3 transfers to performing not forborne	X	726,927
C.4 write-offs	1,076,466	-
C.5 recoveries	2,356,771	1,057,987
C.6 sales proceeds	187,994	-
C.7 losses from disposals	90,055	18,663
C.8 other reductions	789,271	52,158
- of which: business combinations	-	-
<b>D. Closing balance (gross amounts)</b>	<b>10,352,609</b>	<b>3,577,671</b>
- of which sold but not derecognised	772,482	296,504

**A.1.8 On-balance sheet Non-Performing credit exposures with customers: changes in overall impairment**

(€ '000)

SOURCE/CATEGORIES	CHANGES IN 2017					
	BAD EXPOSURES	OF WHICH FORBORNE EXPOSURES	UNLIKELY TO PAY	OF WHICH FORBORNE EXPOSURES	NON-PERFORMING PAST DUE	OF WHICH FORBORNE EXPOSURES
<b>A. Opening balance (gross amount)</b>	<b>27,832,499</b>	<b>937,974</b>	<b>7,605,695</b>	<b>3,695,976</b>	<b>245,701</b>	<b>8,106</b>
- of which sold but not derecognised	184,451	5,040	276,277	190,284	12,229	5,599
<b>B. Increases</b>	<b>3,559,938</b>	<b>654,032</b>	<b>1,923,901</b>	<b>1,745,666</b>	<b>248,640</b>	<b>38,189</b>
B.1 writedowns	1,458,449	204,726	1,488,781	800,474	125,763	4,322
B.2 losses on disposal (+)	897,791	38,079	97,987	51,976	-	-
B.3 transfers from other Non-Performing exposure	1,037,276	286,144	150,422	76,751	3,956	1,546
B.4 other increases	166,422	125,083	186,711	816,465	118,921	32,321
- of which: business combinations	-	-	-	-	-	-
<b>C. Reductions</b>	<b>19,288,664</b>	<b>709,279</b>	<b>3,003,505</b>	<b>1,621,000</b>	<b>278,369</b>	<b>40,037</b>
C.1 write-backs from assessments	642,892	41,239	558,102	346,951	1,729	107
C.2 write-backs from recoveries	226,353	8,950	54,441	14,634	37,917	794
C.3 gains on disposal (-)	409,937	7,382	44,847	31,611	-	-
C.4 write-offs	16,862,568	509,281	859,949	567,185	-	-
C.5 transfers to other Non-Performing exposures	43,647	38,224	969,439	287,579	178,569	38,637
C.6 other decreases	1,103,267	104,203	516,727	373,040	60,154	499
- of which: business combinations	-	-	-	-	-	-
<b>D. Closing balance (gross amounts)</b>	<b>12,103,773</b>	<b>882,727</b>	<b>6,526,091</b>	<b>3,820,642</b>	<b>215,972</b>	<b>6,258</b>
- of which sold but not derecognised	233,857	371,609	549,707	371,609	1,675	159

In line with the dynamics of on balance gross Non-Performing exposures with customers, the correlated annual dynamics of the changes in overall impairment (loan loss provisions stock) includes the completion of the "Phase 1" of FINO Project, which includes the sale of receivables belonging to the FINO Portfolio through the securitisation transactions completed in July 2017 with the signing of the complete contractual documentation, thus implementing the conditions required by IAS39 for the application of the accounting derecognition from the Balance Sheet of UniCredit S.p.A. of the receivables included in the same Portfolio, since the rights to cash out the cash flows deriving from the Portfolio have been transferred (the receivables were previously recognised in "Non-current assets and disposal groups classified as held for sale").

For the most detailed disclosure on FINO Project, see the information provided in Part E - Information on risks and hedging policies - Section 1 - Credit Risk, at the foot of table "A.1.2 - Breakdown of credit exposures by portfolio and credit quality (gross and net values)".

## Part E - Information on risks and hedging policies

Sub-items "B.4 other increases" and "C.2 write-backs from recoveries" include amounts recovered during the year concerning impaired exposures which were derecognised in their entirety.

## A.2 Breakdown of exposures according to external and internal ratings

## A.2.1 On- and off- balance sheet credit exposure by external rating classes

(€ '000)

EXPOSURES	AMOUNTS AS AT 12.31.2017						NO RATING	TOTAL
	EXTERNAL RATING CLASSES							
	CLASS 1	CLASS 2	CLASS 3	CLASS 4	CLASS 5	CLASS 6		
<b>A. On-balance sheet exposures</b>	<b>6,526,925</b>	<b>6,719,268</b>	<b>79,495,655</b>	<b>14,251,131</b>	<b>2,131,784</b>	<b>14,007,455</b>	<b>180,298,964</b>	<b>303,431,182</b>
<b>B. Derivative contracts</b>	<b>34,291</b>	<b>125,261</b>	<b>304,716</b>	<b>271,324</b>	<b>152,487</b>	<b>2</b>	<b>930,496</b>	<b>1,818,577</b>
B.1 Financial derivative contracts	34,291	125,261	304,716	271,324	152,487	2	930,496	1,818,577
B.2 Credit derivative contracts	-	-	-	-	-	-	-	-
<b>C. Guarantees given</b>	<b>81,486</b>	<b>1,072,392</b>	<b>11,112,291</b>	<b>5,438,457</b>	<b>960,105</b>	<b>657,433</b>	<b>20,611,700</b>	<b>39,933,864</b>
<b>D. Other commitments to disburse funds</b>	<b>546,439</b>	<b>1,719,553</b>	<b>7,476,797</b>	<b>2,380,561</b>	<b>428,816</b>	<b>562,157</b>	<b>22,082,854</b>	<b>35,197,177</b>
<b>E. Other</b>	<b>2,694</b>	<b>1,157,457</b>	<b>343,553</b>	<b>155</b>	<b>481</b>	<b>-</b>	<b>-</b>	<b>1,504,340</b>
<b>Total</b>	<b>7,191,835</b>	<b>10,793,931</b>	<b>98,733,012</b>	<b>22,341,628</b>	<b>3,673,673</b>	<b>15,227,047</b>	<b>223,924,014</b>	<b>381,885,140</b>

Impaired assets are included in "Class 6".

Item "A. On-balance sheet Exposure" includes €809,602 thousand of units in investment funds.

The table details on- and off-balance sheet credits granted to counterparties rated by external rating agencies, which provide brief assessments of the creditworthiness of different classes of borrowers such as Sovereigns, Banks, Public-Sector Entities, Insurance Companies and (usually large) Enterprises.

The table refers to classification of 262/2005 Banca d'Italia Circular (4<sup>th</sup> update dated 15 December 2015); then it provides, for external ratings, 6 classes of creditworthiness.

The above presentation refers to the Standard and Poor's ratings, which are also associated to the ratings of the other two main Agencies, Moody's and Fitch.

In the case in which there are ratings from different Agencies for the same counterparty, the most prudential valuation is taken.

The "Investment Grade" area (Class 1 to Class 3) is comprised of 73.9% of the counterparties provided with an external rating and refers to clients with a high credit rating.

Exposures without ratings amount to 58.6% of the total portfolio reflecting the fact that a considerable part of the portfolio is composed of private clients and small and medium sized companies for which an external rating is not available.



## A.2.2 On- and off- balance sheet exposure by internal rating classes

(€ '000)

EXPOSURES	AMOUNTS AS AT 12.31.2017									IMPAIRED EXPOSURES	NO RATING	TOTAL
	INTERNAL RATING CLASSES											
	1	2	3	4	5	6	7	8	9			
A. On-balance sheet exposures	1,588,612	3,046,913	80,191,860	103,585,354	21,372,460	14,975,908	10,420,437	2,787,028	3,319,427	14,005,870	47,327,712	302,621,581
B. Derivative contracts	-	4,498	378,010	883,590	150,983	216,273	36,630	7,442	4,564	-	136,587	1,818,577
B.1 Financial derivative contracts	-	4,498	378,010	883,590	150,983	216,273	36,630	7,442	4,564	-	136,587	1,818,577
B.2 Credit derivative contracts	-	-	-	-	-	-	-	-	-	-	-	-
C. Guarantees given	-	1,864,855	8,574,626	17,178,539	2,960,748	1,959,734	977,128	322,411	304,300	639,684	5,151,839	39,933,864
D. Other commitments to disburse funds	2,684	5,080	7,789,724	12,617,698	1,117,370	616,546	493,654	78,310	49,193	562,157	11,864,761	35,197,177
E. Other	-	-	902,735	601,124	-	107	374	-	-	-	-	1,504,340
<b>Total</b>	<b>1,591,296</b>	<b>4,921,346</b>	<b>97,836,955</b>	<b>134,866,305</b>	<b>25,601,561</b>	<b>17,768,568</b>	<b>11,928,223</b>	<b>3,195,191</b>	<b>3,677,484</b>	<b>15,207,711</b>	<b>64,480,899</b>	<b>381,075,539</b>

INTERNAL RATING CLASSES	PD RANGE				
1	0.0000%	<=	PD	<=	0.0036%
2	0.0036%	<	PD	<=	0.0208%
3	0.0208%	<	PD	<=	0.1185%
4	0.1185%	<	PD	<=	0.5824%
5	0.5824%	<	PD	<=	1.3693%
6	1.3693%	<	PD	<=	3.2198%
7	3.2198%	<	PD	<=	7.5710%
8	7.5710%	<	PD	<=	17.8023%
9	17.8023%	<	PD	<=	99.9999%

The table contains on- and off-balance sheet exposures grouped according to the counterparties' internal rating. Ratings are assigned to individual counterparties using internally-developed models included in their credit risk management processes. The internal models validated by the regulators are both 'Local' and 'Group-wide' (e.g. for banks, multinationals and sovereigns). The various rating scales of these models are mapped onto a single master-scale of 9 classes (illustrated above) based on Probability of Default (PD).

## Part E - Information on risks and hedging policies

### A.3 Breakdown of secured exposures by type of guarantee

#### A.3.1 Secured credit exposures with banks

(€ '000)

	SECURED ON-BALANCE SHEET CREDIT EXPOSURES				SECURED OFF-BALANCE SHEET CREDIT EXPOSURES				TOTAL
	TOTALLY SECURED		PARTIALLY SECURED		TOTALLY SECURED		PARTIALLY SECURED		
		OF WHICH NON-PERFORMING		OF WHICH NON-PERFORMING		OF WHICH NON-PERFORMING		OF WHICH NON-PERFORMING	
<b>Net exposures</b>	<b>6,585,470</b>	<b>-</b>	<b>199,624</b>	<b>-</b>	<b>385,806</b>	<b>-</b>	<b>258,790</b>	<b>-</b>	<b>7,429,690</b>
<b>Collateral (1)</b>									
- Property									
- Mortgages	-	-	-	-	-	-	-	-	-
- Finance leases	-	-	-	-	-	-	-	-	-
- Securities	6,553,501	-	-	-	358,011	-	-	-	6,911,512
- Other assets	-	-	-	-	26,670	-	135,302	-	161,972
<b>Guarantees (2)</b>									
- Credit derivatives									
- Credit linked notes	-	-	-	-	-	-	-	-	-
- Other credit derivatives									
- Governments and central banks	-	-	-	-	-	-	-	-	-
- Other public entities	-	-	-	-	-	-	-	-	-
- Banks	-	-	-	-	-	-	-	-	-
- Other entities	-	-	-	-	-	-	-	-	-
- Signature loans (loans guarantees)									
- Governments and central banks	-	-	-	-	-	-	-	-	-
- Other public entities	-	-	-	-	-	-	-	-	-
- Banks	-	-	199,624	-	-	-	-	-	199,624
- Other entities	-	-	-	-	-	-	-	-	-
<b>Total (1)+(2) 12.31.2017</b>	<b>6,553,501</b>	<b>-</b>	<b>199,624</b>	<b>-</b>	<b>384,681</b>	<b>-</b>	<b>135,302</b>	<b>-</b>	<b>7,273,108</b>

#### A.3.2 Secured credit exposures with customers

(€ '000)

	SECURED ON-BALANCE SHEET CREDIT EXPOSURES				SECURED OFF-BALANCE SHEET CREDIT EXPOSURES				TOTAL
	TOTALLY SECURED		PARTIALLY SECURED		TOTALLY SECURED		PARTIALLY SECURED		
		OF WHICH NON-PERFORMING		OF WHICH NON-PERFORMING		OF WHICH NON-PERFORMING		OF WHICH NON-PERFORMING	
<b>Net exposures</b>	<b>117,409,749</b>	<b>10,828,526</b>	<b>8,066,556</b>	<b>494,787</b>	<b>14,107,449</b>	<b>545,766</b>	<b>2,707,653</b>	<b>27,735</b>	<b>142,291,407</b>
<b>Collateral (1)</b>									
- Property									
- Mortgages	69,736,690	8,636,883	143,902	45,960	1,336,715	212,691	14,748	3,815	71,232,055
- Finance leases	-	-	-	-	-	-	-	-	-
- Securities	25,203,111	78,556	401,905	38,822	6,044,340	4,040	92,997	226	31,742,353
- Other assets	2,391,741	75,806	530,539	8,960	181,887	8,104	133,317	434	3,237,484
<b>Guarantees (2)</b>									
- Credit derivatives									
- Credit linked notes	-	-	-	-	-	-	-	-	-
- Other credit derivatives									
- Governments and central banks	-	-	-	-	-	-	-	-	-
- Other public entities	-	-	-	-	-	-	-	-	-
- Banks	-	-	-	-	-	-	-	-	-
- Other entities	-	-	-	-	-	-	-	-	-
- Signature loans (loans guarantees)									
- Governments and central banks	736,808	38,261	16,177	-	368,187	64	102,521	-	1,223,693
- Other public entities	1,204,647	31,224	1,274,129	26,188	6,437	-	7,671	169	2,492,884
- Banks	50,501	725	55,401	2,002	457,081	40,433	126,881	1,422	689,864
- Other entities	16,856,374	1,356,781	2,061,556	164,700	5,506,092	131,675	964,871	12,281	25,388,893
<b>Total (1)+(2) 12.31.2017</b>	<b>116,179,872</b>	<b>10,218,236</b>	<b>4,483,609</b>	<b>286,632</b>	<b>13,900,739</b>	<b>397,007</b>	<b>1,443,006</b>	<b>18,347</b>	<b>136,007,226</b>

In accordance with the instructions of Circular 262/2005 of Banca d'Italia, (fourth amendment) as of 31 December 2015, the value of the collateral cannot exceed the book value of the secured exposures; therefore, the lower of the loan at the book value and the value of the collateral is coherently presented.

## B. Distribution and concentration of loans

### B.1 Distribution by segment of On- and off-balance sheet credit exposures with customers (book value)

(€ '000)

COUNTERPARTIES/EXPOSURES	GOVERNMENTS			OTHER PUBLIC ENTITIES			FINANCIAL COMPANIES		
	NET EXPOSURE	SPECIFIC WRITE-DOWNS	PORTFOLIO ADJUSTMENTS	NET EXPOSURE	SPECIFIC WRITE-DOWNS	PORTFOLIO ADJUSTMENTS	NET EXPOSURE	SPECIFIC WRITE-DOWNS	PORTFOLIO ADJUSTMENTS
<b>A. On-balance sheet exposures</b>									
A.1 Bad exposures	101	3,041	X	70,523	57,850	X	35,706	438,522	X
- of which: forborne exposures	-	-	X	-	-	X	4,818	37,699	X
A.2 Unlikely to pay	-	-	X	7,119	3,393	X	711,050	411,328	X
- of which: forborne exposures	-	-	X	296	241	X	512,253	273,411	X
A.3 Non-Performing past-due	317	269	X	2,408	1,190	X	1,304	529	X
- of which: forborne exposures	-	-	X	-	-	X	1	2	X
A.4 Performing exposures	62,690,691	X	4,038	2,450,173	X	50,195	59,521,240	X	70,319
- of which: forborne exposures	-	X	-	-	X	-	102,956	X	660
<b>Total A</b>	<b>62,691,109</b>	<b>3,310</b>	<b>4,038</b>	<b>2,530,223</b>	<b>62,433</b>	<b>50,195</b>	<b>60,269,300</b>	<b>850,379</b>	<b>70,319</b>
<b>B. Off-balance sheet exposures</b>									
B.1 Bad exposures	-	-	X	-	-	X	175	677	X
B.2. Unlikely to pay	-	-	X	-	-	X	100,551	-	X
B.3 Other Non-Performing exposures	21	2	X	559	33	X	-	-	X
B.4 Performing exposures	4,005,362	X	6	5,484,597	X	1,609	11,733,869	X	1,464
<b>Total B</b>	<b>4,005,383</b>	<b>2</b>	<b>6</b>	<b>5,485,156</b>	<b>33</b>	<b>1,609</b>	<b>11,834,595</b>	<b>677</b>	<b>1,464</b>
<b>Total 12.31.2017</b>	<b>66,696,492</b>	<b>3,312</b>	<b>4,044</b>	<b>8,015,379</b>	<b>62,466</b>	<b>51,804</b>	<b>72,103,895</b>	<b>851,056</b>	<b>71,783</b>
<b>Total 12.31.2016</b>	<b>66,765,105</b>	<b>15,869</b>	<b>3,881</b>	<b>7,763,103</b>	<b>53,256</b>	<b>52,252</b>	<b>75,459,451</b>	<b>1,559,241</b>	<b>40,311</b>

Continued: B.1 Distribution by segment of On- and off-balance sheet credit exposures with customers (book value)

(€ '000)

COUNTERPARTIES/EXPOSURES	INSURANCE COMPANIES			NON-FINANCIAL COMPANIES			OTHER ENTITIES		
	NET EXPOSURE	SPECIFIC WRITE-DOWNS	PORTFOLIO ADJUSTMENTS	NET EXPOSURE	SPECIFIC WRITE-DOWNS	PORTFOLIO ADJUSTMENTS	NET EXPOSURE	SPECIFIC WRITE-DOWNS	PORTFOLIO ADJUSTMENTS
<b>A. On-balance sheet exposures</b>									
A.1 Bad exposures	-	-	X	2,179,319	7,541,516	X	3,352,818	4,062,844	X
- of which: forborne exposures	-	-	X	187,709	571,298	X	293,408	273,730	X
A.2 Unlikely to pay	-	-	X	5,767,452	5,464,332	X	1,541,223	647,038	X
- of which: forborne exposures	-	-	X	3,667,102	3,161,106	X	958,792	385,884	X
A.3 Non-Performing past-due	-	-	X	86,291	40,679	X	245,237	173,304	X
- of which: forborne exposures	-	-	X	4,225	1,882	X	14,378	4,375	X
A.4 Performing exposures	225,763	X	114	74,660,214	X	423,496	58,236,013	X	368,157
- of which: forborne exposures	-	X	-	1,281,934	X	56,726	1,993,679	X	141,716
<b>Total A</b>	<b>225,763</b>	<b>-</b>	<b>114</b>	<b>82,693,276</b>	<b>13,046,527</b>	<b>423,496</b>	<b>63,375,291</b>	<b>4,883,186</b>	<b>368,157</b>
<b>B. Off-balance sheet exposures</b>									
B.1 Bad exposures	-	-	X	101,901	38,683	X	1,042	14	X
B.2. Unlikely to pay	-	-	X	985,057	219,226	X	2,388	648	X
B.3 Other Non-Performing exposures	-	-	X	7,007	732	X	806	90	X
B.4 Performing exposures	365,846	X	56	39,936,784	X	32,273	1,383,079	X	1,467
<b>Total B</b>	<b>365,846</b>	<b>-</b>	<b>56</b>	<b>41,030,749</b>	<b>258,641</b>	<b>32,273</b>	<b>1,387,315</b>	<b>752</b>	<b>1,467</b>
<b>Total 12.31.2017</b>	<b>591,609</b>	<b>-</b>	<b>170</b>	<b>123,724,025</b>	<b>13,305,168</b>	<b>455,769</b>	<b>64,762,606</b>	<b>4,883,938</b>	<b>369,624</b>
<b>Total 12.31.2016</b>	<b>581,185</b>	<b>1,022</b>	<b>94</b>	<b>123,190,545</b>	<b>27,770,878</b>	<b>711,388</b>	<b>65,808,435</b>	<b>6,437,952</b>	<b>527,806</b>

## Part E - Information on risks and hedging policies

## B.2 Distribution of On- and off-balance sheet exposures with customers by geographic area (book value)

(€ '000)

GEOGRAPHIC AREA/EXPOSURES	AMOUNT AS AT 12.31.2017									
	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	NET EXPOSURE	TOTAL WRITE-DOWNS	NET EXPOSURE	TOTAL WRITE-DOWNS	NET EXPOSURE	TOTAL WRITE-DOWNS	NET EXPOSURE	TOTAL WRITE-DOWNS	NET EXPOSURE	TOTAL WRITE-DOWNS
<b>A. On-balance sheet exposures</b>										
A.1 Bad exposures	5,632,066	12,065,047	5,661	37,202	563	1,231	97	110	82	183
A.2 Unlikely to pay	7,560,430	6,111,865	411,177	381,836	53,513	32,083	1,618	88	106	219
A.3 Non-Performing past-due exposures	333,110	213,201	1,780	994	169	286	125	381	373	1,109
A.4 Performing exposures	233,400,629	837,232	19,353,689	34,148	1,791,189	29,169	2,915,773	15,342	322,814	428
<b>Total A</b>	<b>246,926,235</b>	<b>19,227,345</b>	<b>19,772,307</b>	<b>454,180</b>	<b>1,845,434</b>	<b>62,769</b>	<b>2,917,613</b>	<b>15,921</b>	<b>323,375</b>	<b>1,939</b>
<b>B. Off-balance sheet exposures</b>										
B.1 Bad exposures	103,118	39,374	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	1,076,740	217,934	7,548	1,358	2,111	582	1,597	-	-	-
B.3 Other Non-Performing exposures	8,387	856	2	-	-	-	-	-	4	1
B.4 Performing exposures	51,281,990	26,940	7,103,271	5,903	3,173,170	301	1,252,657	3,731	98,449	-
<b>Total B</b>	<b>52,470,235</b>	<b>285,104</b>	<b>7,110,821</b>	<b>7,261</b>	<b>3,175,281</b>	<b>883</b>	<b>1,254,254</b>	<b>3,731</b>	<b>98,453</b>	<b>1</b>
<b>Total A+B 12.31.2017</b>	<b>299,396,470</b>	<b>19,512,449</b>	<b>26,883,128</b>	<b>461,441</b>	<b>5,020,715</b>	<b>63,652</b>	<b>4,171,867</b>	<b>19,652</b>	<b>421,828</b>	<b>1,940</b>
<b>Total A+B 12.31.2016</b>	<b>302,322,038</b>	<b>36,580,087</b>	<b>29,763,071</b>	<b>537,121</b>	<b>4,923,873</b>	<b>29,076</b>	<b>2,332,351</b>	<b>25,107</b>	<b>226,491</b>	<b>2,557</b>

## B.2 Distribution of On- and off-balance sheet exposures with customers by geographic area (book value) - Italy

(€ '000)

GEOGRAPHIC AREA/EXPOSURES	AMOUNT AS AT 12.31.2017							
	NORTH-WEST ITALY		NORTH-EAST ITALY		CENTRAL ITALY		SOUTH ITALY AND ISLANDS	
	NET EXPOSURE	TOTAL WRITE-DOWNS	NET EXPOSURE	TOTAL WRITE-DOWNS	NET EXPOSURE	TOTAL WRITE-DOWNS	NET EXPOSURE	TOTAL WRITE-DOWNS
<b>A. Balance sheet exposures</b>								
A.1 Bad exposures	1,879,476	3,372,830	1,108,702	2,451,148	1,220,495	3,025,298	1,423,393	3,215,771
A.2 Unlikely to pay	2,348,478	1,975,214	1,539,364	1,341,652	2,163,342	1,609,537	1,509,248	1,185,461
A.3 Non-Performing past-due exposures	61,910	42,515	51,711	34,826	97,506	56,743	121,982	79,119
A.4 Performing exposures	65,453,720	264,283	37,665,745	148,182	107,498,645	239,709	22,782,516	185,057
<b>Total A</b>	<b>69,743,584</b>	<b>5,654,842</b>	<b>40,365,522</b>	<b>3,975,808</b>	<b>110,979,988</b>	<b>4,931,287</b>	<b>25,837,139</b>	<b>4,665,408</b>
<b>B. Off-balance sheet exposures</b>								
B.1 Bad exposures	15,453	6,544	32,482	18,553	29,732	2,797	25,452	11,480
B.2 Unlikely to pay	411,955	124,977	163,369	47,563	441,073	40,348	60,344	5,045
B.3 Other Non-Performing exposures	717	41	647	68	6,063	687	960	59
B.4 Performing exposures	17,828,006	8,383	8,210,872	4,837	23,092,983	12,289	2,150,129	1,432
<b>Total B</b>	<b>18,256,131</b>	<b>139,945</b>	<b>8,407,370</b>	<b>71,021</b>	<b>23,569,851</b>	<b>56,121</b>	<b>2,236,885</b>	<b>18,016</b>
<b>Total A+B 12.31.2017</b>	<b>87,999,715</b>	<b>5,794,787</b>	<b>48,772,892</b>	<b>4,046,829</b>	<b>134,549,839</b>	<b>4,987,408</b>	<b>28,074,024</b>	<b>4,683,424</b>
<b>Total A+B 12.31.2016</b>	<b>87,637,566</b>	<b>9,576,524</b>	<b>53,355,829</b>	<b>7,631,047</b>	<b>131,701,562</b>	<b>10,142,211</b>	<b>29,627,081</b>	<b>9,230,305</b>

**B.3 Distribution of On- and off-balance sheet credit exposures with banks by geographic area (book value)**

(€ '000)

EXPOSURES/GEOGRAPHIC AREA	AMOUNT AS AT 12.31.2017									
	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	NET EXPOSURE	TOTAL WRITE-DOWNS	NET EXPOSURE	TOTAL WRITE-DOWNS	NET EXPOSURE	TOTAL WRITE-DOWNS	NET EXPOSURE	TOTAL WRITE-DOWNS	NET EXPOSURE	TOTAL WRITE-DOWNS
<b>A. On-balance sheet exposures</b>										
A.1 Bad exposures	-	-	-	309	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	4,998	1,175	-	16	-	-
A.3 Non-Performing past-due	-	-	-	-	-	-	-	25	-	-
A.4 Performing exposures	7,339,049	1,106	22,709,890	839	298,362	410	326,795	4,246	157,524	363
<b>Total A</b>	<b>7,339,049</b>	<b>1,106</b>	<b>22,709,890</b>	<b>1,148</b>	<b>303,360</b>	<b>1,585</b>	<b>326,795</b>	<b>4,287</b>	<b>157,524</b>	<b>363</b>
<b>B. Off-balance sheet exposures</b>										
B.1 Bad exposures	-	-	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	-	-	-	-	2,333	2,334	-	-	-	-
B.3 Other Non-Performing exposures	-	-	-	-	-	-	-	-	-	-
B.4 Performing exposures	808,834	219	10,528,281	3,130	177,520	231	1,079,053	1,993	244,553	606
<b>Total B</b>	<b>808,834</b>	<b>219</b>	<b>10,528,281</b>	<b>3,130</b>	<b>179,853</b>	<b>2,565</b>	<b>1,079,053</b>	<b>1,993</b>	<b>244,553</b>	<b>606</b>
<b>Total A+B</b>										
12.31.2017	8,147,883	1,325	33,238,171	4,278	483,213	4,150	1,405,848	6,280	402,077	969
<b>Total A+B</b>										
12.31.2016	13,101,405	844	23,601,133	2,610	581,003	11,573	1,279,939	1,787	452,562	811

**B.3 Distribution of On- and off-balance sheet credit exposures with banks by geographic area (book value) - Italy**

(€ '000)

EXPOSURES/GEOGRAPHIC AREA	AMOUNT AS AT 12.31.2017							
	NORTH-WEST ITALY		NORTH-EAST ITALY		CENTRAL ITALY		SOUTH ITALY AND ISLANDS	
	NET EXPOSURE	TOTAL WRITE-DOWNS	NET EXPOSURE	TOTAL WRITE-DOWNS	NET EXPOSURE	TOTAL WRITE-DOWNS	NET EXPOSURE	TOTAL WRITE-DOWNS
<b>A. On-balance sheet exposures</b>								
A.1 Bad exposures	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-
A.3 Non-Performing past-due	-	-	-	-	-	-	-	-
A.4 Performing exposures	4,504,476	1,014	320,499	31	2,514,053	61	21	-
<b>Total A</b>	<b>4,504,476</b>	<b>1,014</b>	<b>320,499</b>	<b>31</b>	<b>2,514,053</b>	<b>61</b>	<b>21</b>	<b>-</b>
<b>B. Off-balance sheet exposures</b>								
B.1 Bad exposures	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	-	-	-	-	-	-	-	-
B.3 Other Non-Performing exposures	-	-	-	-	-	-	-	-
B.4 Performing exposures	643,179	187	45,319	27	120,267	3	69	1
<b>Total B</b>	<b>643,179</b>	<b>187</b>	<b>45,319</b>	<b>27</b>	<b>120,267</b>	<b>3</b>	<b>69</b>	<b>1</b>
<b>Total A+B</b>								
12.31.2017	5,147,655	1,201	365,818	58	2,634,320	64	90	1
<b>Total A+B</b>								
12.31.2016	3,470,043	658	290,509	115	9,340,768	71	85	-

## Part E - Information on risks and hedging policies

### B.4 Large exposures

	12.31.2017
a) Amount book value (€ million)	290,558
b) Amount weighted value (€ million)	21,678
c) Number	7

In compliance with Art.4.1 39 of Regulation (EU) No.575/2013 (CRR), in case of exposures towards a group of connected clients formed by a Central Government and other groups of connected clients, such exposure towards the Central Government is reported for each group of connected clients when remitting regulatory reporting; despite the regulatory approach above mentioned, both the amounts shown in letter a), b), and the number in the letter c) in the table above disclose only once the exposure towards the Central Government.

Please also note that deferred tax assets towards Italian Central Government were considered as fully exempted and, as a consequence, the weighted amount reported is null.

### C. Securitisation transactions

#### Qualitative information

In 2017 UniCredit S.p.A. carried out four traditional and five synthetic new securitisation transactions:

- Fino project (for the most detailed disclosure on securitisation transactions related to the FINO Project please refer to the information provided in Part E-Information on risks and hedging policies-Section 1. Credit Risk, at the foot of table "A.1.2 Breakdown of credit exposures by portfolio and credit quality (gross and net values)).
  - Fino 1 Securitisation (traditional)
  - Fino 2 Securitisation (traditional)
  - Onif Finance (traditional)
- Sandokan project
  - Yanez SPV (traditional)
- Bond Italia5 Investimenti (synthetic)
- Bond Italia5 Misto (synthetic)
- Filsec 2016 (synthetic)
- Finpiemonte 2016 (synthetic)
- SME Initiative 2017 (synthetic)

details of the transactions, traditional and synthetic, are set out in the tables enclosed in the 'Annexes' to the Company Accounts, including also those carried out in previous financial years.

It should be noted that, again during 2017, the transactions Consumer TWO and Veneto Sviluppo 2014, the first traditional and the second synthetic securitisation, were closed.

It should also be noted that "self-securitisations" and transactions in warehousing phase are not included in the quantitative tables of Part C, as required by regulations.

Part of the portfolio are:

- own securitisation transactions, both traditional and synthetic, including also those traditional carried out by the Banks absorbed by UniCredit S.p.A. in previous years, for a book value of €10,869 million as at 31 December 2017;
- securities arising out of securitisation transactions carried out by other Companies belonging to the UniCredit group, for a book value of €1,988 million as at 31 December 2017;
- other third-party securitisation exposures, for a book value of €89 million as at 31 December 2017.

Quantitative information

**C.1 - Exposure from the main "in-house" securitisation transaction broken down by type of securitised asset and by type of exposure**

(€ '000)

TYPE OF SECURITISED ASSETS/EXPOSURE	BALANCE SHEET EXPOSURE					
	SENIOR		MEZZANINE		JUNIOR	
	CARRYING VALUE	WRITE-DOWNS/WRITE-BACKS	CARRYING VALUE	WRITE-DOWNS/WRITE-BACKS	CARRYING VALUE	WRITE-DOWNS/WRITE-BACKS
<b>A. Totally derecognised</b>	<b>549,104</b>	-	<b>148,050</b>	-	<b>93,361</b>	-
A.1 CBO OTHERS	549,104	-	148,050	-	93,361	-
<b>B. Partially derecognised</b>	-	-	<b>23,342</b>	-	<b>3,057</b>	<b>51</b>
C.1 CLO OTHERS	-	-	23,342	-	3,057	51
<b>C. Not-derecognised</b>	<b>8,441,471</b>	-	<b>498,926</b>	-	<b>1,111,847</b>	<b>7,045</b>
C.1 RMBS Prime	1,013,229	-	219,008	-	556,097	(15,836)
C.2 CLO SME	943	-	-	-	32	-
C.3 CLO OTHERS	7,427,299	-	279,918	-	555,718	22,881
C.4 CONSUMER LOANS	-	-	-	-	-	-

Write-downs and write-backs, including depreciations and revaluations posted on the income statement or to reserves, refer to financial year 2017 only.

continued: C.1 - Exposure from the main "in-house" securitisation transaction broken down by type of securitised asset and by type of exposure

TYPE OF SECURITISED ASSETS/EXPOSURE	GUARANTEES GIVEN					
	SENIOR		MEZZANINE		JUNIOR	
	NET EXPOSURE	WRITE-DOWNS/WRITE-BACKS	NET EXPOSURE	WRITE-DOWNS/WRITE-BACKS	NET EXPOSURE	WRITE-DOWNS/WRITE-BACKS
<b>A. Totally derecognised</b>	-	-	-	-	-	-
A.1 CBO OTHERS	-	-	-	-	-	-
<b>B. Partially derecognised</b>	-	-	-	-	-	-
C.1 CLO OTHERS	-	-	-	-	-	-
<b>C. Not-derecognised</b>	<b>304,000</b>	-	-	-	-	-
C.1 RMBS Prime	-	-	-	-	-	-
C.2 CLO SME	-	-	-	-	-	-
C.3 CLO OTHERS	304,000	-	-	-	-	-
C.4 CONSUMER LOANS	-	-	-	-	-	-

continued: C.1 - Exposure from the main "in-house" securitisation transaction broken down by type of securitised asset and by type of exposure

TYPE OF SECURITISED ASSETS/EXPOSURE	CREDIT FACILITIES					
	SENIOR		MEZZANINE		JUNIOR	
	NET EXPOSURE	WRITE-DOWNS/WRITE-BACKS	NET EXPOSURE	WRITE-DOWNS/WRITE-BACKS	NET EXPOSURE	WRITE-DOWNS/WRITE-BACKS
<b>A. Totally derecognised</b>	-	-	-	-	-	-
A.1 CBO OTHERS	-	-	-	-	-	-
<b>B. Partially derecognised</b>	-	-	-	-	-	-
C.1 CLO OTHERS	-	-	-	-	-	-
<b>C. Not-derecognised</b>	<b>12,658</b>	-	-	-	-	-
C.1 RMBS Prime	-	-	-	-	-	-
C.2 CLO SME	-	-	-	-	-	-
C.3 CLO OTHERS	12,658	-	-	-	-	-
C.4 CONSUMER LOANS	-	-	-	-	-	-

## Part E - Information on risks and hedging policies

**C.2 - Exposure resulting from the main third-party securitisation transactions broken down by type of securitised asset and by type of exposure**

(€ '000)

TYPE OF SECURITISED ASSETS/EXPOSURE	BALANCE-SHEET EXPOSURE					
	SENIOR		MEZZANINE		JUNIOR	
	CARRYING VALUE	WRITE-DOWNS/WRITE-BACKS	CARRYING VALUE	WRITE-DOWNS/WRITE-BACKS	CARRYING VALUE	WRITE-DOWNS/WRITE-BACKS
- CLO OTHERS	20,892	-	1	-	53,472	(389)
- CONSUMER LOANS	14,214	-	-	-	-	-
- LEASING	1,973,359	-	14,904	-	-	-

continued: C.2 - Exposure resulting from the main third-party securitisation transactions broken down by type of securitised asset and by type of exposure

TYPE OF SECURITISED ASSETS/EXPOSURE	GUARANTEES GIVEN					
	SENIOR		MEZZANINE		JUNIOR	
	NET EXPOSURE	WRITE-DOWNS/WRITE-BACKS	NET EXPOSURE	WRITE-DOWNS/WRITE-BACKS	NET EXPOSURE	WRITE-DOWNS/WRITE-BACKS
- CLO OTHERS	-	-	-	-	-	-
- CONSUMER LOANS	-	-	-	-	-	-
- LEASING	-	-	-	-	-	-

continued: C.2 - Exposure resulting from the main third-party securitisation transactions broken down by type of securitised asset and by type of exposure

TYPE OF SECURITISED ASSETS/EXPOSURE	CREDIT FACILITIES					
	SENIOR		MEZZANINE		JUNIOR	
	NET EXPOSURE	WRITE-DOWNS/WRITE-BACKS	NET EXPOSURE	WRITE-DOWNS/WRITE-BACKS	NET EXPOSURE	WRITE-DOWNS/WRITE-BACKS
- CLO OTHERS	-	-	-	-	-	-
- CONSUMER LOANS	-	-	-	-	-	-
- LEASING	-	-	-	-	-	-



### C.3 SPVs for securitisations

(€'000)

NAME OF SECURITISATION/SPES	COUNTRY OF INCORPORATION	CONSOLIDATION	ASSETS			LIABILITIES		
			LOANS AND RECEIVABLES	DEBT SECURITIES	OTHERS	SENIOR	MEZZANINE	JUNIOR
Capital Mortgage S.r.l. - BIPCA Cordusio	Piazzetta Monte 1 - 37121 Verona	Yes	361,569	-	13,999	229,424	99,606	2,939
Capital Mortgage S.r.l. - 2007	Piazzetta Monte 1 - 37121 Verona	Yes	792,666	-	34,541	582,941	74,000	67,542
Cordusio RMBS Securitisation S.r.l. - Serie 2006	Piazzetta Monte 1 - 37121 Verona	Yes	322,907	-	11,892	150,273	141,702	10,687
Cordusio RMBS Securitisation S.r.l. - Serie 2007	Piazzetta Monte 1 - 37121 Verona	Yes	1,036,817	-	21,231	697,518	236,405	2,383
Cordusio RMBS - UCFin S.r.l	Piazzetta Monte 1 - 37121 Verona	Yes	580,829	-	23,228	344,036	148,001	15,252
F-E Mortgages S.r.l. - 2003	Piazzetta Monte 1 - 37121 Verona	Yes	133,904	-	26,827	55,886	59,020	7,632
F-E Mortgages S.r.l. - 2005	Piazzetta Monte 1 - 37121 Verona	Yes	218,113	-	15,104	110,366	36,864	32,310
Heliconus S.r.l	Piazzetta Monte 1 - 37121 Verona	Yes	66,856	-	13,048	24,870	30,829	8,990
LARGE CORPORATE ONE SRL	Piazzetta Monte 1 - 37121 Verona	Yes	247,277	-	40,532	253,734	-	35,004
ARCOBALENO FINANCE SRL	Foro Buonaparte,70 - 20121 Milano	No	76,083	-	4,007	30,679	-	54,700
AUGUSTO SRL	Via Pontaccio, 10 - 20121 Milano	No	966	-	1,912	13,329	-	-
Caesar Finance S.A.	4 Rue Henry M. Schnadt - 2530 Luxembourg	No	-	35,284	-	-	-	47,381
COLOMBO SRL	Via Pontaccio, 10 - 20121 Milano	No	8,667	-	6,382	-	-	12,313
CREDIARC SPV SRL	Foro Buonaparte,70 - 20121 Milano	No	47,374	-	3,155	38,939	-	26,411
FINO 1 SECURITISATION SRL	Viale Luigi Majno 45, 20122 Milano	No	739,000	-	70,902	650,000	69,640	50,311
FINO 2 SECURITISATION SRL	Viale Luigi Majno 45, 20122 Milano	No	619,466	-	40,854	389,428	200,600	39,554
ONIF FINANCE SRL	Via Alessandro Pestalozza 12/14, 20131 Milano	No	319,662	-	20,528	150,000	100,000	79,508
Pillarstone Italy SPV S.r.l. - Burgo	Via Pietro Mascagni, 14 - 20122 Milano	No	190,730	-	4,547	6,959	132,225	27,078
Pillarstone Italy SPV S.r.l. - Comital	Via Pietro Mascagni, 14 - 20122 Milano	No	31,284	-	4,097	10	12,955	24,465
Pillarstone Italy SPV S.r.l. - Lediberg	Via Pietro Mascagni, 14 - 20122 Milano	No	53,348	-	92	419	7,968	44,035
Pillarstone Italy SPV S.r.l. - Premuda	Via Pietro Mascagni, 14 - 20122 Milano	No	277,006	-	13,577	10,603	198,676	87,392
Pillarstone Italy SPV S.r.l. - Rainbow	Via Pietro Mascagni, 14 - 20122 Milano	No	76,398	-	175	890	16,921	56,405
Sestante Finance S.r.l.	Via Borromei, 5 - 20123 Milano	No	263,652	-	-	189,664	89,502	8,610
YANEZ SPV S.R.L.	Via Vittorio Alfieri 1, 31015 Conegliano	No	1,078,350	-	13,350	3	367,010	441,654

### C.4 Special Purpose Vehicles for securitisations not consolidated

See the corresponding item of Consolidated Financial Statements.

## Part E - Information on risks and hedging policies

**C.5 Servicer activities - Collections of securitised loans and redemptions of securities issued by the special purpose vehicle for securitisation**

(€ '000)

SERVICER	SPECIAL PURPOSE VEHICLE	SECURITISED ASSETS (YEAR END FIGURES)		LOANS COLLECTED DURING THE YEAR		PERCENTAGE OF SECURITIES REDEEMED (YEAR END FIGURES)					
		IMPAIRED	PERFORMING	IMPAIRED	PERFORMING	SENIOR		MEZZANINE		JUNIOR	
						IMPAIRED ASSETS	PERFORMING ASSETS	IMPAIRED ASSETS	PERFORMING ASSETS	IMPAIRED ASSETS	PERFORMING ASSETS
UniCredit S.p.A.	Capital Mortgage S.r.l. - BIPCA Cordusio	34,637	326,933	3,750	42,447	-	73.07%	-	-	-	-
	Capital Mortgage S.r.l. - 2007	127,358	665,308	11,046	88,163	-	75.51%	-	-	-	-
	Consumer Two S.r.l.	-	-	-	198,080	-	100.00%	-	-	-	100.00%
	Cordusio RMBS Securitisation S.r.l. - SERIE 2006	28,267	294,640	5,392	93,829	-	93.72%	-	-	-	-
	Cordusio RMBS Securitisation S.r.l. - SERIE 2007	110,843	925,974	12,743	158,136	-	80.99%	-	-	-	-
	Cordusio RMBS UCFin S.r.l.	79,041	501,789	7,246	84,377	-	85.27%	-	-	-	-
	F-E Mortgage S.r.l. - SERIE 2003	14,921	118,983	2,119	18,667	-	95.27%	-	-	-	-
	F-E Mortgage S.r.l. - SERIE 2005	26,689	191,424	3,106	27,404	-	88.40%	-	10.31%	-	10.31%
	Heliconus S.r.l.	6,656	60,200	1,043	9,879	-	96.03%	-	-	-	-
	Large Corporate One S.r.l.	-	247,277	-	185,941	-	-	-	-	-	-

**D. Information on structured entities not consolidated for accounting purposes (other than vehicles for securitisation transactions)**

See the corresponding section of Consolidated Financial Statements.

**E. Sales transactions**
**A. Financial Assets sold and not fully derecognised**
**E.1 Financial assets sold and not derecognised: book value and full value**

(€ '000)

TYPE/PORTFOLIO	AMOUNTS AS AT 12.31.2017								
	FINANCIAL ASSETS HELD FOR TRADING			FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS			AVAILABLE FOR SALE FINANCIAL ASSETS		
	A	B	C	A	B	C	A	B	C
<b>A. On-balance sheet assets</b>	<b>(817,656)</b>	-	-	-	-	-	<b>(25,471,413)</b>	-	-
1. Debt securities	(817,656)	-	-	-	-	-	(25,471,413)	-	-
2. Equity securities	-	-	-	-	-	-	-	-	-
3. UCIS	-	-	-	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-	-	-	-
<b>B. Derivatives</b>	-	-	-	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Total 12.31.2017</b>	<b>(817,656)</b>	-	-	-	-	-	<b>(25,471,413)</b>	-	-
<i>of which Non-Performing</i>	-	-	-	-	-	-	-	-	-
<b>Total 12.31.2016</b>	<b>3,019,827</b>	-	-	-	-	-	<b>30,399,127</b>	-	-
<i>of which Non-Performing</i>	-	-	-	-	-	-	-	-	-

continued: E.1 Financial assets sold and not derecognised: book value and full value

TYPE/PORTFOLIO	AMOUNTS AS AT 12.31.2017									TOTAL	
	HELD-TO-MATURITY INVESTMENTS			LOANS AND RECEIVABLES WITH BANKS			LOANS AND RECEIVABLES WITH CUSTOMERS			12.31.2017	12.31.2016
	A	B	C	A	B	C	A	B	C		
<b>A. On-balance sheet assets</b>	<b>(746,716)</b>	-	-	-	-	-	<b>(4,543,163)</b>	<b>(30,793)</b>	<b>(59,675)</b>	<b>(31,669,416)</b>	<b>39,091,743</b>
1. Debt securities	(746,716)	-	-	-	-	-	-	-	-	(27,035,785)	34,158,407
2. Equity securities	X	X	X	X	X	X	X	X	X	-	-
3. UCIS	X	X	X	X	X	X	X	X	X	-	-
4. Loans	-	-	-	-	-	-	(4,543,163)	(30,793)	(59,675)	(4,633,631)	4,933,336
<b>B. Derivatives</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	-	-
<b>Total 12.31.2017</b>	<b>(746,716)</b>	-	-	-	-	-	<b>(4,543,163)</b>	<b>(30,793)</b>	<b>(59,675)</b>	<b>(31,669,416)</b>	<b>X</b>
<i>of which Non-Performing</i>	-	-	-	-	-	-	(928,285)	(30,793)	(59,675)	(1,018,753)	X
<b>Total 12.31.2016</b>	<b>739,453</b>	-	-	-	-	-	<b>4,933,336</b>	-	-	<b>X</b>	<b>39,091,743</b>
<i>of which Non-Performing</i>	-	-	-	-	-	-	637,181	-	-	X	637,181

**LEGEND:**

A = Financial assets sold and fully recognised (book value)  
 B = Financial assets sold and partially recognised (book value)  
 C = Financial assets sold and partially recognised (full value)

Loans (A.4) are assets sold and not derecognised under securitisations.

Debt securities (A.1) are underlying repo agreements.

**E.2 Financial liabilities relating to financial assets sold and not derecognised: carrying value**

(€ '000)

LIABILITIES/ASSETS PORTFOLIOS	AMOUNTS AS AT 12.31.2017						TOTAL
	FINANCIAL ASSETS HELD FOR TRADING	FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS	AVAILABLE FOR SALE FINANCIAL ASSETS	HELD-TO-MATURITY INVESTMENTS	LOANS AND RECEIVABLES WITH BANKS	LOANS AND RECEIVABLES WITH CUSTOMERS	
<b>1. Deposits from customers</b>	<b>661,593</b>	-	<b>20,613,289</b>	-	-	<b>1,996,363</b>	<b>23,271,245</b>
a) relating to fully recognised assets	661,593	-	20,613,289	-	-	1,991,970	23,266,852
b) relating to partially recognised assets	-	-	-	-	-	4,393	4,393
<b>2. Deposits from Banks</b>	<b>145,672</b>	-	<b>4,936,447</b>	<b>792,442</b>	-	-	<b>5,874,561</b>
a) relating to fully recognised assets	145,672	-	4,936,447	792,442	-	-	5,874,561
b) relating to partially recognised assets	-	-	-	-	-	-	-
<b>Total 12.31.2017</b>	<b>807,265</b>	-	<b>25,549,736</b>	<b>792,442</b>	-	<b>1,996,363</b>	<b>29,145,806</b>
<b>Total 12.31.2016</b>	<b>3,004,556</b>	-	<b>30,301,077</b>	<b>760,567</b>	-	<b>2,303,937</b>	<b>36,370,137</b>

**E.3 Sales transactions relating to financial liabilities with repayment exclusively based on assets sold and not derecognised: fair value**

(€ '000)

TYPE/PORTFOLIO	AMOUNTS AS AT 12.31.2017					
	FINANCIAL ASSETS HELD FOR TRADING		FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS		AVAILABLE FOR SALE FINANCIAL ASSETS	
	A	B	A	B	A	B
<b>A. On-balance sheet assets</b>	<b>817,656</b>	-	-	-	<b>25,471,413</b>	-
1. Debt securities	817,656	-	-	-	25,471,413	-
2. Equity securities	-	-	-	-	-	-
3. UCIS	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-
<b>B. Derivatives</b>	-	-	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Total assets</b>	<b>817,656</b>	-	-	-	<b>25,471,413</b>	-
<b>C. Associated financial liabilities</b>	<b>799,904</b>	-	-	-	<b>25,557,097</b>	-
1. Deposits from customers	654,232	-	-	-	20,620,650	-
2. Deposits from banks	145,672	-	-	-	4,936,447	-
3. Debt securities in issue	-	-	-	-	-	-
<b>Total liabilities</b>	<b>799,904</b>	-	-	-	<b>25,557,097</b>	-
<b>Total 12.31.2017</b>	<b>17,752</b>	-	-	-	<b>(85,684)</b>	-
<b>Total 12.31.2016</b>	<b>21,056</b>	-	-	-	<b>549,373</b>	-

## Part E - Information on risks and hedging policies

continued: E.3 Sales transactions relating to financial liabilities with repayment exclusively based on assets sold and not derecognised: fair value

TYPE/PORTFOLIO	AMOUNTS AS AT 12.31.2017						TOTAL	
	HELD-TO-MATURITY INVESTMENTS		LOANS AND RECEIVABLES WITH BANKS		LOANS AND RECEIVABLES WITH CUSTOMERS			
	A	B	A	B	A	B	12.31.2017	12.31.2016
<b>A. On-balance sheet assets</b>	759,067	-	-	-	4,458,102	30,793	31,537,031	39,268,003
1. Debt securities	759,067	-	-	-	-	-	27,048,136	34,167,807
2. Equity securities	X	X	X	X	X	X	-	-
3. UCIS	X	X	X	X	X	X	-	-
4. Loans	-	-	-	-	4,458,102	30,793	4,488,895	5,100,196
<b>B. Derivatives</b>	X	X	X	X	X	X	-	-
<b>Total assets</b>	759,067	-	-	-	4,458,102	30,793	31,537,031	39,268,003
<b>C. Associated financial liabilities</b>	792,442	-	-	-	1,829,188	4,394	X	X
1. Deposits from customers	-	-	-	-	1,829,188	4,394	X	X
2. Deposits from banks	792,442	-	-	-	-	-	X	X
3. Debt securities in issue	-	-	-	-	-	-	X	X
<b>Total liabilities</b>	792,442	-	-	-	1,829,188	4,394	28,983,025	35,687,782
<b>Totale 12.31.2017</b>	<b>(33,375)</b>	-	-	-	<b>2,628,914</b>	<b>26,399</b>	<b>2,554,006</b>	<b>X</b>
<b>Total 12.31.2016</b>	<b>(11,714)</b>	-	-	-	<b>3,021,506</b>	-	<b>X</b>	<b>3,580,221</b>

**LEGEND:**

A = Financial assets sold and fully recognised  
 B = Financial assets sold and partially recognised

**B. Financial Assets sold and totally derecognised with recognition of continuing involvement**

At the end of the year they were no disposals of financial assets that had been fully derecognised, which required the recognition of continuing involvement.

**E.4 Covered Bond Transactions**

In 2008 UniCredit S.p.A. initiated a Covered Bond (*OBG* or *Obbligazioni Bancarie Garantite*) Programme with residential mortgage loans as the underlying assets, in line with Law 130/99, the MEF decree dated 14 December 2006 and Banca d'Italia instructions dated 17 May 2007 as amended on 24 March 2010 and on 24 June 2014.

Under this programme:

- UniCredit S.p.A. is issuer and also acts as transferor of suitable assets and servicer;
- UniCredit BpC Mortgage S.r.l. (a Special Purpose Vehicle set up within the banking group as expressly authorised by Banca d'Italia) is guarantor of the OBG holders, within the limits of the cover pool;
- the auditing firm BDO S.p.A. (formerly Mazars S.p.A.) is Asset Monitor.

UniCredit S.p.A.'s main aims in issuing OBGs are to diversify its funding sources and fund at competitive rates. As with the securitisations, the difficulties in the markets made it advisable to use securitisation as a means of increasing the counterbalancing capacity by retaining part of the securities issued by the vehicle. An integral feature of OBG Programme management is maintaining a balance between the characteristics of the assets sold and the issues. This is necessary to maintain the efficacy of the guarantee given by the SPV to the bondholders.

Given the complexity of the transaction, a system of first- and second-level controls and procedures has been set up, as required by Banca d'Italia instructions, to identify units, functions, duties and responsibilities, and specific policies have been issued to this end.

The policies were as approved by the competent committees, the Statutory Auditors and the Board of Directors of UniCredit S.p.A.

As required by Banca d'Italia instructions on controls:

- UniCredit's Risk Management function is charged with the management of the issuer's risks and checks:
  - the quality, suitability and integrity of the assets sold to guarantee the OBGs;
  - that the maximum ratio of OBGs issued to assets sold to guarantee them is adhered to;
  - that limits on sales and supplementary sales procedures are followed;
  - the effectiveness and adequacy of the hedges provided by any derivatives contracts entered into in relation to the Programme; and
  - the trend in the balance between the cash flow arising from the cover pool and that absorbed by the OBGs in issue;
- the Asset Monitor is an outside independent entity charged with checking at least annually the regularity of the transactions and the integrity of the guarantee to the bondholders;
- UniCredit's internal audit department is responsible for a complete audit (to be conducted at least once a year) of the adequacy of the controls performed;
- the results of the audits performed by the Asset Monitor and the issuer's internal audit department are submitted to the governing bodies.

Moreover, in order to create counterbalancing capacity, at the end of January 2012 UniCredit S.p.A. initiated a new Covered Bonds (OBG or Obbligazioni Bancarie Garantite) programme ("New OBG Programme"), without specific ratings and having residential mortgage loans and commercial mortgage loans as underlyings. The contractual and supervisory structure and the counterparties of this programme are modeled on the pre-existing programme, with the exception of references to Ratings Agencies and the use of a new Special Purpose Vehicle, UniCredit OBG S.r.l. During 2014 the New OBG Programme was restructured after which the method of reimbursing OBGs was converted from Soft-bullet to Conditional Pass-through and a rating of AA+ was assigned by the rating agency Fitch. Starting from 2015 both issues placed to institutional investors and issues retained for counterbalancing capacity creation were executed on the New OBG Programme. During 2017 Fitch rating was substituted by Moody's rating that assigned a rating of Aa2 to the New OBG Programme.

At 31 December 2017 the series of covered bonds issued under the two programmes totalled 29 and were worth €26,456 million, of which €14,350 million was repurchased by UniCredit S.p.A.

NAME	COVERED BONDS (OBBLIGAZIONI BANCARIE GARANTITE)
Originator:	UniCredit S.p.A. (formerly UniCredit Family Financing Bank S.p.A.)
Issuer:	UniCredit S.p.A.
Servicer:	UniCredit S.p.A.
Arranger:	UniCredit Bank AG, London Branch
Target transaction:	Funding
Type of asset:	Private Mortgage loans
Quality of Asset:	performing
Book value of the underlying assets at the end of accounting period (€):	14,672,252,737.38
Covered Bonds issued at the end of accounting period (€):	9,606,000,000.00
Other Credit Enhancements:	UniCredit S.p.A. has granted SPV a subordinated loans of total €15,425,276,946.85
Rating Agencies:	S & P - Moody's - Fitch
Rating:	A+ (from 11/06/2017) - Aa2 (from 01/21/2015) - AA (from 04/27/2017)

NAME	COVERED BONDS (OBBLIGAZIONI BANCARIE GARANTITE) II PROGRAMME
Originator:	UniCredit S.p.A.
Issuer:	UniCredit S.p.A.
Servicer:	UniCredit S.p.A.
Arranger:	UniCredit Bank AG, London Branch
Target transaction:	Funding - Counterbalancing Capacity
Type of asset:	Private Mortgage loans
Quality of Asset:	Performing
Book value of the underlying assets at the end of accounting period (€):	17,838,212,368.14
Covered Bonds issued at the end of accounting period (€):	16,850,000,000.00
Other Credit Enhancements:	UniCredit S.p.A. has granted SPV a subordinated loan of total €19,544,324,946.97
Rating Agencies:	Moody's
Rating:	Aa2 (from 05/17/2017)

## Part E - Information on risks and hedging policies

### Other transactions

With reference to indications of Banca d'Italia/Consob/IVASS document No.6 of 8 March 2013 - Booking of "long-term structured repos", there are no transactions of this kind to report.

In addition, with reference to an investment of UniCredit S.p.A. in a debt security issued by the Italian Republic maturing on 30 August 2019 (ITALY 19EUR FRN) subscribed for during placement for a nominal amount of €750 million and with a book value of €747 million including accrued interest at 31 December 2017 (classified in the held-to-maturity portfolio in accordance with the economic purpose), a term repo (conducted in two stages) for a total nominal amount of €750 million, with a book value of liabilities of €761 million at 31 December 2017, was completed in 2012.

At the same time, a 4.25% BTP maturing in September 2019 was purchased under a term reverse repo (conducted in 2 stages) for a total nominal value of €750 million and a book value of €761 million at 31 December 2017, with the economic purpose of obtaining the availability of more liquid securities (compared with the security ITALY 19EUR FRN), with the same maturity and similar underlying risks, that can be therefore used more easily for refinancing operations.

The term repo and the term reverse repo are subject to netting (whose value is collateralised by cash) in the event of the default of one of the two counterparties or of the Italian Republic. This clause is accounted for as a financial guarantee issued, in accordance with the nature of the commitments of the parties. The fair value at trade date, €22 million, was initially recorded in other liabilities and is amortised on a pro-rata basis according to the current accounting rules.

### Information on Sovereign Exposures

In accordance with CONSOB Notice DEM/11070007 of 5 August 2011 (which in turn refers to ESMA document 2011/266 of 28 July 2011) concerning information to be disclosed in the financial reports on exposures held by listed companies in debt securities and sovereign financing, as well as the current trend in global markets, details are provided on Sovereign Exposures<sup>11</sup> held by UniCredit S.p.A. as of 31 December 2017. Altogether, the book value of Sovereign Exposures represented by "debt securities" as of 31 December 2017 was €54,499 million, of which nearly 82% in connection with Italy.

This exposure is shown in the table below:

#### Breakdown of Sovereign Debt Securities by Country and Portfolio

(€ '000)

COUNTRY/PORTFOLIO	AMOUNTS AS AT 12.31.2017		
	NOMINAL VALUE	BOOK VALUE	FAIR VALUE
<b>- Italy</b>	<b>42,410,168</b>	<b>44,544,607</b>	<b>44,549,413</b>
financial assets/liabilities held for trading (net exposures*)	482,703	511,965	511,965
financial assets at fair value through profit or loss	-	-	-
available for sale financial assets	41,066,664	43,174,847	43,174,847
loans and receivables	95,307	95,363	81,130
held to maturity investments	765,494	762,431	781,470

Note:

(\*) Including exposures in Credit Derivatives.

The remaining 18% of total Sovereign Exposures to debt securities, equal to €9.9 million, still in connection with the relative book value as of 31 December 2017, is spread over 14 countries, of which €4,500 million to Spain, €2,661 million to France, €720 million to Japan, and €688 million to Germany.

The exposures in question were not subject to impairment in 2017.

The table below ranks debt securities and their percentage share over their related total portfolio.

#### Breakdown of Sovereign Debt Securities by Portfolio

(€ '000)

	AMOUNTS AS AT 12.31.2017				
	FINANCIAL ASSETS AT FAIR VALUE (*)	AVAILABLE FOR SALE FINANCIAL ASSETS	LOANS	HELD TO MATURITY INVESTMENTS	TOTAL
Book value	894,012	52,723,901	119,011	762,431	54,499,355
% Portfolio	12.28%	88.29%	0.06%	100.00%	

Note:

(\*) The financial assets measured at fair value include "assets held for trading" and "assets measured at fair value".

<sup>11</sup> Sovereign Exposures means debt obligations issued by central and local governments, and government bodies as well as loans granted to them. For purposes of the current risk exposure any positions held through ABSs are excluded.

"Financing"<sup>12</sup> granted to central and local governments, and government entities must also be added to Sovereign Exposures in debt securities, as shown in the table below:

### Breakdown of Sovereign Loans by Country

(€ '000)

COUNTRY	AMOUNTS AS AT 12.31.2017 BOOK VALUE
- Italy	3,234,981
- Qatar	82,581
- Brazil	62,720
- Dominican Republic	60,300
- Turkey	30,431
- Kenya	17,363
- Indonesia	11
- Latvia	8
- Ghana	7
- Haiti	5
- Saudi Arabia	1
- Romania	1
- Jordan	1
- Other	7
<b>Total on-balance sheet exposures</b>	<b>3,488,420</b>

For more details on the analysis of sensitivity to credit spreads and the outcome of stress tests, please see the "Greece default", "Sovereign Debt Tension" and "Widespread Contagion" scenarios described under Section 2 - Market risks below. For details regarding liquidity management policies, please see the following Section 3 - Liquidity risk.

### Information on OTC Trading Derivatives with Customers

The business model governing OTC derivatives trading with customers provides for centralization of market risk in the CIB Division - Markets Area, while credit risk is assumed by the Group company which, under the divisional or geographical segmentation model, manages the relevant customer's account.

The Group's operational model provides for customer trading derivatives business to be carried on, as part of each subsidiary's operational independence:

- by the commercial banks and divisions that close transaction in OTC derivatives in order to provide non-institutional clients with products to manage currency, interest-rate and price risk. Under these transactions, the commercial banks transfer their market risks to the CIB Division by means of equal and opposite contracts, retaining only the relevant counterparty risk. The commercial banks also place or collect orders on behalf of others for investment products with embedded derivatives (e.g. structured bonds);
- by the CIB Division operating with large corporate and financial institutions, in respect of which it assumes and manages both market and counterparty risk;
- by CEE Banks, which transact business directly with their customers.

The UniCredit group trades OTC derivatives on a wide range of underlying, e.g. interest rates, currency rates, share prices and indexes, commodities (precious metals, base metals, petroleum and energy materials) and credit rights.

OTC derivatives offer considerable scope for personalization; new payoff profiles can be constructed by combining several OTC derivatives (for example, a plain vanilla IRS with one or more plain vanilla or exotic options). The risk and the complexity of the structures obtained in this manner depend on the respective characteristics of the components (reference parameters and indexation mechanisms) and the way in which they are combined.

Credit and market risk arising from OTC derivatives business is controlled by the Chief Risk Officer competence line (CRO) in the Parent and/or in the Division or subsidiary involved. This control is carried out by means of guidelines and policies covering risk management, measurement and controls in terms of principles, rules and processes, as well as by setting VaR limits.

The business with non-institutional clients does not (usually) entail the use of margin calls, whereas with institutional counterparties (dealt with by the CIB Division) recourse may be made to 'credit-risk mitigation' (CRM) techniques, by using netting and/or collateral agreements.

<sup>12</sup> Excluding tax items.

## Part E - Information on risks and hedging policies

Write-downs and write-backs of derivatives to take account of counterparty risk are determined in line with the procedure used to assess other credit exposure, specifically:

- performing exposure to customers are mapped by deriving EAD (Exposure at Default) that take into account the Wrong Way Risk and measured with PD (Probability of Default) and LGD (Loss Given Default) implied by current market default rates obtained from credit & loan-credit default swaps, in order to obtain a value in terms of 'expected loss' (EL) to be used for items designated and measured at fair value maximising usage of market's inputs;
- non-performing positions are valued in terms of estimated expected future cash flow according to specific indications of impairment (which are the basis for the calculation of the amount and timing of the cash flow).

Here follows the breakdown of balance-sheet asset item "20. Financial assets held for trading" and of balance-sheet liability item "40. Financial liabilities held for trading".

To make the distinction between customers and banking counterparties, the definition contained in *Banca d'Italia* Circular No.262 as for its fourth update published on 15 December 2015 (which was used for the preparation of the accounts) was used as a reference.

Structured products were defined as derivative contracts that incorporate in the same instrument forms of contracts that generate exposure to several types of risk (with the exception of cross-currency swaps) and/or leverage effects.

The balance of item "20 Financial assets held for trading" with regard to derivative contracts totaled €5,736 million (with a notional value of €187,843 million) including €3,024 million with customers. The notional value of derivatives with customers amounted to €72,685 million including €69,241 million in plain vanilla (with a fair value of €2,861 million) and €3,444 million in structured derivatives (with a fair value of €164 million). The notional value of derivatives with banking counterparties totaled €115,158 million (fair value of €2,712 million) including €2,883 million related to structured derivatives (fair value of €104 million).

The balance of item "40 Financial liabilities held for trading" of the consolidated accounts with regard to derivative contracts totaled €5,834 million (with a notional value of €176,211 million) including €2,043 million with customers. The notional value of derivatives with customers amounted to €56,696 million including €53,862 million in plain vanilla (with a fair value of €2,043 million) and €2,834 million in structured derivatives (with a fair value immaterial). The notional value of derivatives with banking counterparties totaled €119,515 million (fair value of €3,791 million) including €3,395 million related to structured derivatives (fair value immaterial).

### F. Credit risk measurement models

At the end of December 2017 the expected loss on the credit risk perimeter was 0.72% of total Bank credit exposure. This trend is mitigated by the exposures which migrate to default and therefore do not enter in the calculation of expected loss. Besides, since risk measurement systems tend to be anti-cyclical, this may result in a smaller elasticity to the swift changes of the macroeconomic scenario. The ratio between credit economic capital and its relative credit exposure amount is 2.4% with reference date end-September 2017. This risk metric kept constant compared to the previous quarter end-June 2017.

## Section 2 - Market risks

Market risk derives from the effect that changes in market variables (interest rates, securities prices, exchange rates, etc.) can cause to the economic value of the Group's portfolio, including the assets held both in the Trading Book, as well as those posted in the Banking Book, both on the operations characteristically involved in commercial banking and in the choice of strategic investments. Market risk management within the UniCredit group accordingly includes all activities related to cash transactions and capital structure management, both for the Parent company, as well as for the individual companies making up the Group.

The current organisational model guarantees the ability to steer, to coordinate and to control the activities of some aggregated risks (so-called Portfolio Risks), through dedicated responsibility centres (Portfolio Risk Managers), completely focused and specialised on such risks, under a Group and interdivisional perspective.

According to this organisation, the structure at first level of reporting to "Group Risk Management", dedicated to market risk governance is the "Group Financial Risk" department.

### Risk Management Strategies and Processes

The Parent Company's Board of Directors lays down strategic guidelines for taking on market risks by calculating capital allocation for the Parent company and its subsidiaries, depending on risk appetite and value creation objectives in proportion to risks assumed.

The Holding Company has defined Global Rules in order to manage and control market risk, including strategies and processes to be followed. Market risk strategies are set by the Holding Company at least on an annual basis, in coherence with the definition of the overall Group Risk appetite and then cascaded to the Leal Entities. Market risk appetite is also paramount to the development of Group's business strategy, ensuring the coherence between the budgeted revenues and the setting of Value-at-Risk limits.



In this context, on an annual basis Market Risk Management function of the Holding Company agrees possible changes to the Group Market Risk Framework with local Market Risk functions. Changes to the Group Market Risk Framework can include changes to the perimeter for the calculation of managerial market risk metrics and methodological changes in the limit monitoring framework.

To this end, Market Risk Management of the Holding Company gathers the information needed to set up the Group Market Risk Strategy for the following year. In particular, Group Market Risk Management receives from the competent function the Group Risk Appetite Framework, which sets, among others, Market Risk KPIs and from local Market Risk functions, among others, the list of Legal Entities (LEs)/Business Lines allowed to assume market risk exposures, the severities of related limits and the proposals for the review of market risk levels.

Based on these inputs, the Group Market Risk strategy is defined including the following information:

- the proposed Market Risk Takers Map;
- limits and WLs proposal in accordance with the proposed Market Risk Takers Map;
- any change occurred to the risk limit framework compared to the previous year;
- overview on the macro-economic scenario and related risks for the Group;
- market Risk RWA history and expected development;
- market Risk KPIs benchmarking;
- the business strategy and key initiatives to support the limit proposal.

Once all Group relevant Bodies have approved the Group Market Risk Strategy and given the relevant NBOs for local market risk limits, the approval is communicated to local functions.

In terms of monitoring, LE carries out periodical activities (e.g. daily monitoring of VaR, weekly monitoring of IRC and SVaR, monthly monitoring of Stress Test Warning Level) under the coordination of Holding Company Market Risk Management function and the breaches are timely escalated locally to Senior Management and to the Holding Company.

Ultimately, it has to be highlighted that detailed Global Rules on market risk strategy definition, limits setting, monitoring, escalation and reporting activities are in place and applied at Group level.

### **Trading Book**

In accordance with the Capital Requirements Regulation, and as defined in the current policy "Eligibility Criteria for the Regulatory Trading Book assignment", the Trading Book is defined as all positions in financial instruments and commodities held either with trading intent, or in order to hedge positions held with trading intent. Books held with trading intent are composed of:

- positions and positions arising from client servicing and market making;
- positions intended to be resold short term;
- positions intended to benefit from actual or expected short-term price differences between buying and selling prices or from other price or interest rate variations.

The essential requirement for the Regulatory Trading Book assignment is the above defined "trading intent", additionally the following requirements have to be assessed:

- Tradability refers to positions free of restrictions on their tradability and coherently reflected within the "Trader Mandate" of the risk taker;
- Marketability refers to positions for which a reliable Fair Value can be evaluated based to the largest extent on independently verified observable market parameters;
- Hedgeability refers to positions for which a hedge could be put in place. The hedgeability is meant to concern the "material" risks of a position which implies not necessarily all the various risk features are to be hedgeable.

When opening a new book, the book manager makes the proposal whether the book should be managed as a Trading Book or a Banking Book based on the planned trading activity. The book manager is required to clearly declare the trading intent and therefore to explain the business strategy behind the request for the Regulatory Trading assignment. The book manager is then responsible for all positions held in his book and the eligibility criteria are expected to be fulfilled on an ongoing basis.

Concerning the monitoring phase, to demonstrate adequate trading intent, the following minimum criteria have to be fulfilled at book level and are checked at least on a quarterly basis:

- minimum of 5 trades during the past 90 trading days;
- minimum of 5% of the volume of each book traded during the past 90 trading days with reference to the last day of the period.

## Part E - Information on risks and hedging policies

In case a breach of the trading intent criteria, the possibility to re-classify the book has to be assessed.

With reference to the methodology used to ensure that the policies and procedures implemented for the management of the Trading Book are appropriate, first of all it has to be noted that any new/updated regulation has to be preliminary shared with the main impacted functions/LEs in order to collect their feedback. Group Compliance also assesses the compliance risks with reference to the regulations falling within its direct scope of competence. In addition, before the issuance, the owner of the rule submits to the competent approving Body/function for the approval.

The financial instruments (an asset or a liability, cash or derivative) held by the Group are exposed to changes over time driven by moves of market risk factors. The market risk factors are classified in the following five standard market risk asset classes:

- Credit risk: the risk that the value of the instrument decreases due to credit spreads changes;
- Equity risk: the risk that the value of the instrument decreases due to stock or index prices changes;
- Interest rate risk: the risk that the value of the instrument decreases due to interest rates changes;
- Currency risk: the risk that the value of the instrument decreases due to foreign exchange rates changes;
- Commodity risk: the risk that the value of the instrument decreases due to commodity prices (e.g. gold, crude oil) changes.

UniCredit group manages and monitors market risk through two sets of measures:

- Broad Market Risk measures:
  - Value at Risk (VaR), which represents the potential loss in value of a portfolio over a defined period for a given confidence interval;
  - Stressed VaR (SVaR), which represents the potential VaR of a portfolio subject to a continuous 12-month period of significant financial stress;
  - Incremental Risk Charge (IRC), which represents the amount of regulatory capital aimed at addressing the credit shortcomings (rating migration and default risks) that can affect a portfolio in a defined time period for a given confidence interval;
  - Loss Warning Level (LWL), which is defined as the 60 calendar days rolling period accumulated economic P&L of a risk taker;
  - Stress Test Warning Level (STWL), which represents the potential loss in value of a portfolio calculated on the basis of a distressed scenario;
- Granular Market Risk measures:
  - Sensitivity levels, which represent the change in the market value of a financial instrument due to small moves of the relevant market risk asset classes/factors. Among others, and not limited to, particularly relevant considering the asset and liability structure of the commercial bank are the Basis Point Value Sensitivity, that measures the change in the present value of the interest rate sensitive positions resulting from a 1bp parallel shift to interest rate, and the Credit Point Value Sensitivity, that measure the change in the present value of the credit risk sensitive positions resulting from a 1bp parallel shift to credit spread (per issuer, rating or industry);
  - Stress scenario levels, which represent the change in the market value of a financial instrument due to large moves of the relevant market risk asset classes/factors;
  - Nominal levels, which are based on the notional value of the exposure.

On the basis of these measures, two sets of limits are defined:

- Broad Market Risk limits (Loss Warning Levels, Stress Test Warning Level, VaR, SVaR, IRC): which are meant to set a boundary to the economic capital absorption and to the economic loss accepted for TB and/or the overall TB+BB activities (and/or BB). These must be consistent with assigned budget of revenues and the defined risk taking capacity (ICAAP process). Value at Risk on TB activities has also to be consistent with Group Risk Appetite KPIs. All VaR limitations (both on TB and on the sum of TB and BB (and/or BB) have to be consistent with the Stress Tests Warning Levels;
- Granular Market Risk limits (Sensitivity limits, Stress scenario limits, Nominal limits): which exist independently of, but act in concert with Broad Market Risk limits and operate in a consolidated fashion across the Legal Entities (if applicable); in order to control more effectively and more specifically different risk types, desks and products, these limits are generally granular sensitivity or stress-related limits. The levels set for Granular Market Risk measures aim at limiting the concentration in individual risk factors and the excessive exposure in risk factors which are not sufficiently covered under by Internal Model for market risk (IMOD).

### Banking Book

The main components of market risk in the Banking Book are credit spread risk, pure interest rate risk and FX risk.

Credit spread risk originates mainly from government bond portfolios held for liquidity purposes. The market risk of the bond portfolio is restricted based on notional, sensitivity measures and Value at Risk. The main credit spread exposure is related to Italian sovereign risk in the Italian perimeter.

The second risk type is the interest rate risk. The exposure is measured in terms of economic value sensitivity and the net interest income sensitivity. On a daily basis the treasury functions manages the interest rate risk from commercial transactions within operational limits set by the relevant risk committees. The exposure is measured and monitored on a daily basis by the risk management functions.

The Asset & Liability Committee is responsible for the interest rate strategy for the strategic position. This includes the decision of investing the net position of non interest earning assets and non-interest bearing liabilities. The management of Banking Book interest rate risk aims to optimise, in an on-going scenario, the risk/return profile and long term value creation while reducing adverse impacts on bank's earnings and regulatory capital coming from interest rates volatility. The main target of IRRBB strategy is the reduction of net interest income volatility in a multiyear horizon. The strategy does not imply any intended directional or discretionary positioning to generate additional earnings, unless approved by relevant bodies and separately monitored. The only exceptions is for those functions authorised to carry interest rates positions within an approved level of limitations. The management strategy on the structural mismatch involving non-interest earning assets and non-interest bearing liabilities (free funds), aims to balance the trade-off between a stable flow of earnings in a multiyear horizon and the opportunity cost of having a fixed rate investment. The interest rate management strategy takes into account the main impact from prepayments. Based on historical prepayment data as well as trend analysis the prepayment behavior is estimated. In Italy the prepayment expected profile is implicitly taken into account by treasury while hedging for commercial assets interest risk. The prepayment risk for the German mortgage portfolio is driven by the level of the interest rates and by the behavior of the customers independent of the level of the interest rates. The interest rate sensitive prepayments are rather small at the current level of the interest rates and are hedged via swaptions. The not interest rate sensitive prepayments are hedged via swaps according to the Interest Rate Risk strategy of the bank. The prepayment risk in the Austria and CEE countries loan portfolio is deemed residual therefore no prepayment hedging strategy is applied.

The overall interest risk exposure on Banking Book perimeter is periodically reported, at least on a monthly basis, to the Group ALCO.

The committee's involvement in interest rate risk management includes:

- the definition of granular interest rate Banking Book limits;
- the initial approval and fundamental modifications for the measurement and control system of Banking Book interest rate risks with the support of internal validation function (where necessary);
- optimising the Group profile for Banking Book interest rate risk;
- the definition of the operative strategies of balance sheet (e.g. replicating portfolio) and application of the internal transfer prices within the Italian perimeter;
- consulting and suggestion functions to Group Risk & Internal Control Committee with respect to the contribution to Risk Appetite Framework, Global Policy for Interest Rate Banking Book definition and changes of behavioral models for Interest Rate Banking Book and other critical/important issues with potential impact on Banking Book interest rate.

A third risk type is FX risk. The sources of this exposure refer mainly to capital investment in foreign currency. The current strategy is not to hedge the capital. The general policy is to hedge the foreign currency exposure related to dividends and P&L taking into account hedging cost and market circumstances. The exposure is most relevant for CEE Legal Entities. The FX exposure is hedged using forwards and options that are classified as Trading Book. This general rule is valid for the Parent Company. The hedge strategy is reviewed by the relevant risk committees on a periodic basis.

## Structure and Organisation

Group Financial Risk department is responsible for ensuring the implementation of strategies and processes related to market risk at Group-wide level. In terms of main responsibilities connected to market risk matters, the department is accountable for:

- governing and controlling the Group's financial risks through the evaluation of strategies and the proposal to relevant Bodies of risk limits and Global/Local Rules;
- providing decisions and NBO, when specifically required by Global Rules and sub-delegation of powers, for liquidity, interest rate, market, counterparty and trading credit risks of the Group;
- ensuring compliance of the Financial Risk Management framework to regulatory requirements;
- defining, setting up and maintaining Group methodologies and architectures for measurement and control of market, counterparty, interest rate and liquidity risk.

The department is composed of the following organisational structures with focus on market risk:

- **"Group Market & Trading Credit Risk Management"** department, responsible for governing and checking the Group's market risks;
- **"Group Price Control"**, unit, has the mission to steer and control, for the whole Group, the independent price verification processes (IPV);
- **"Group Financial Risk Methodologies & Models"** department, develops and maintains financial risks Group methodologies, models and architectures;
- **"Financial Risk Italy"** unit, responsible for the independent control of liquidity, interest rate, market, counterparty, trading credit and collateral risks at UC S.p.A. and LE/Italy level as well the required stress tests;
- **"Group Financial Risk Standard & Practice"** unit, responsible for Global Policies and for the financial risk reporting coherence and coordination across the Group;
- **"Group Liquidity and Interest Rate Risk Management"** unit, responsible for the independent control of liquidity risk and the balance sheet interest rate risk at Group level as well as for the internal and regulatory stress testing.

## Part E - Information on risks and hedging policies

With reference to the communication mechanism between the different parties involved in market risk management, the responsible Committees are:

- Group Market Risk Committee;
- Group Assets & Liabilities Committee.

The "Group Market Risk Committee", whose participants are mainly representatives of Risk, Business, Compliance and Internal Audit, meets monthly and is responsible for monitoring market risks at Group level, for evaluating the impact of transactions, approved by the competent bodies, significantly affecting the overall Market Risk portfolio profile, for submitting to the "Group Risk Internal Controller Committee", for approval or information, market risk strategies, policies, methodologies and limits as well as regular reporting on the market risk portfolio.

The Committee is also responsible for ensuring consistency in market risk policies, methodologies and practices across Divisions, Business Units and Legal Entities. It controls and monitors the Group market risk portfolio.

The "Group Assets and Liabilities Committee" is involved in the process of defining strategies, policies, methodologies and limits (where applicable) for liquidity risk, FX and Banking Book interest rate risks, transfer pricing, Funding Plan and Contingency Funding Plan and in monitoring activities. It also ensures the consistency of the practices and methodologies related to liquidity, FX and Banking Book interest rate across Business Functions and Legal Entities, with the aim to optimise the usage of financial resources (e.g. liquidity and capital) in coherence with Risk Appetite and Business Strategies.

### Risk measurement and reporting systems

#### Trading Book

During 2017, UniCredit group continued to improve and consolidate market risk models in order to properly measure, represent and control the Group risk profile, reflecting these changes in the reporting activity. As regards market risk measurement, more details can be found in the paragraph "Internal Model for Price, Interest Rate and Exchange Rate Risk of the Regulatory Trading Book", while for both monthly and daily reporting process, Global Operational Instruction are periodically updated.

Within the organisational context described above, the policy implemented by the UniCredit group within the scope of market risk management is aimed at the gradual adoption and use of common principles, rules and processes in terms of appetite for risk, ceiling calculations, model development, pricing and risk model scrutiny.

The Group Financial Risk department is specifically required to ensure that principles, rules and processes are in line with industry best practice and consistent with standards and uses in the various countries in which they are applied.

The main tool used by the UniCredit group to measure market risk on trading positions is Value at Risk (VaR), calculated using the historical simulation method. Further details on risk valuation models are included in the following chapter.

Group Financial Risk defines market risk reporting standards, both in terms of contents and recurrence, and provides timely information to Top Management and regulators regarding the market risk profile on a consolidated level.

In addition to VaR and Basel II risk measures, stress tests represent an important risk management tool that provides UniCredit with an indication of how much capital might be needed to absorb losses in case of large financial shocks. Stress testing forms an integral part of the Internal Capital Adequacy Assessment Process (ICAAP), which requires UniCredit to undertake rigorous, forward-looking stress testing that identifies possible events or changes in market conditions that could adversely impact the bank.

#### Banking Book

The primary responsibility of the monitoring and control of the risk management for market risk in the Banking Book lies in the Bank's competent Bodies. For instance, the Parent Company is in charge of monitoring market risks for the Banking Book at the consolidated level. As such, it defines structure, data and frequency of the necessary Group reporting.

The Banking Book interest rate risk measures cover both the value and net interest income risk aspects.

More precisely, the different and complementary perspectives involve:

- Economic value perspective: variation in interest rates can affect the economic value of assets and liabilities. The economic value of the bank can be viewed as the present value of the bank's expected net cash flows, defined as the expected cash flows on assets minus the expected cash flows on liabilities; a relevant risk measure from this perspective is the economic value sensitivity per time bucket for a 1 bp rate shock. This measure is reported to the relevant committees to assess the economic value impact of various changes in the yield curve. In addition the economic value sensitivity for a 200bps parallel shock is included;
- Earnings at Risk perspective: the focus of the analysis is the impact of changes of interest rates on Net Interest Income that is the difference between revenues generated by interest sensitive assets and the cost related to interest sensitive liabilities. An example of a measure of risks used is Net Interest Income sensitivity for a 100bp parallel shock of rates. It provides an indication of the impact on the net interest income over the next 12 months if such shock should occur. Additional stress test scenarios are performed on a regular basis to estimate the basis risk and non-parallel shocks.

Next to the set of limits and warning levels for interest rate risk, restrictions and exposure measures are in place for other market risk types such as foreign exchange risk, equity risk, value risk due to credit spread fluctuations. Besides through economic value sensitivity measures and other granular indicators, these risk types are captured in a value at risk measure that includes all market risk factors. These values at risk measures are based on a historical simulation.

## Hedging policies and risk mitigation

### Trading Book

On a quarterly basis a set of risk indicators is provided to the Group Risk Committee through the Enterprise Risk Management Report and, on a monthly basis, to the Group Market Risk Committee through the Market Risk Overview report; these include VaR, Stressed VaR and IRC limit usages, Sensitivities, Sovereign Exposure and Stress Test results.

At the same time limit breaches are reported both to the Group Market Risk Committee and to the Group Risk Committee (according to their severity), the escalation process being ruled by the Global Policy "Market Risk Limits" which defines the nature of the various thresholds/limits applied, as well as the relevant bodies to involve to establish the most appropriate course of action to restore exposure within the approved limits.

If required, focus is provided from time to time on the activity of a specific business line/desk in order to ensure the highest level of comprehension and discussion of the risks in certain areas which are deemed to deserve particular attention.

### Banking Book

The ALCO evaluates the main market risk drivers on a monthly basis. Group Risk Management reports to the committee on the Banking Book risk measures both from a value and income perspective. It proposes and monitors limits and warning levels that have been approved by the relevant competent bodies.

Breaches of limits and warning levels are reported, upon occurrence, to the relevant bodies. Consequently the escalation process is activated in line with the procedures set in the Policy, to establish the most appropriate course of action to restore exposure within the approved limits.

Execution of structural hedges to mitigate the interest rate risk exposure on client business is responsibility of the treasury functions. Strategic transactions in the Banking Book is managed by the Asset and Liability Management department – ALM.

### Internal Model for Price, Interest Rate and Exchange Rate Risk of the Regulatory Trading Book

The Directive 2010/76/EU (CRD III) introduced several improvements to the capital regime for Trading Book positions fully incorporating the proposal from the Basel Committee. CRD III enhanced the consolidated Value-at-Risk (VaR)-based framework with other risk measures: an incremental risk capital charge (IRC) and a stressed Value-at-Risk (SVaR) aimed at reducing the pro-cyclicality of the minimum capital requirements for market risk.

All the regulatory requirements in the market risk arena have been addressed via internal development of the necessary model and IT infrastructure as opposed to the external acquisition of ready-made solutions.

This enabled UniCredit to craft solutions that in many aspects can be considered on the sophisticated end of the spectrum of practices that can be found in the Industry. In this respect one distinctive feature of the market (and counterparty) risk frameworks implemented in UniCredit group is the full revaluation approach employing the same pricing libraries used in the Front Office.

UniCredit group calculates both VaR and SVaR for market risk on trading positions using the historical simulation method. Under the historical simulation method positions are revaluated (in full revaluation approach) on the basis of trends in market prices over an appropriate observation period. The empirical distribution of profits/losses deriving therefrom is analysed to determine the effect of extreme market movements on the portfolios.

For a given portfolio, probability and time horizon, VaR is defined as a threshold value such that the probability that the mark-to-market loss on the portfolio, over the given time horizon, not exceeding this value (assuming no trading in the portfolio) has the given confidence level.

Current configuration of the internal model defines VaR at a 99% confidence level on the 1 day P&L distribution obtained from equally weighted historical scenarios covering the most recent 500 days. Historical scenarios are built relying on proportional shocks for Equities and FX rates, and on absolute shocks for Interest Rates and Credit Spreads. UniCredit VaR Model simulates all the risk factors, both referring to general and specific risk, thus providing diversification in a straightforward approach. The model is recalibrated on a daily basis. The use of a 1-day time-horizon makes the immediate comparison with realised profits/losses possible and such comparison is at the heart of the back-testing exercise.

## Part E - Information on risks and hedging policies

The VaR measure identifies a consistent measure across all of our portfolio and products, since it:

- allows a comparison of risk among different businesses;
- provides a means of aggregating and netting position within a portfolio to reflect correlation and offsets between different assets classes;
- facilitates comparisons of our market risk both over time and against daily results.

Although a valuable guide to risk, VaR should always be viewed within its limitations:

- Historical simulation relies on past occurrences to forecast potential losses. In case of regime shifts this might not be appropriate;
- The length of the time window used to generate the forecasted distribution will necessarily embed a trade-off between the responsiveness of the metric to recent market evolutions (short window) and the spectrum of scenarios that will embed (long window);
- Assuming a constant one/ten day horizon there is no discrimination between different risk-factor liquidity.

Stressed VaR calculation is based on the very same methodology and architecture of the VaR, and it is analogously calculated with 99% confidence level and 1 day time horizon on a weekly basis, but over a stressed observation period of 250 days. The chosen historical period identifies the 1-year observation window which produces the highest resulting measure for the current portfolio.

Stress windows are recalibrated on a quarterly basis and are tailored to the portfolio of each Legal Entity of the Group, plus the Group itself (relevant for RWA calculation on a consolidated level). The SVaR window at Group level changed in the first half of 2017, from "Sovereign Debt Crisis" (2012) to "Lehman Crisis" (2008/09). For UniCredit S.p.A. the stressed window corresponds to the "Sovereign Debt Crisis" (2012), while for UCB AG and UCBA AG to the "Lehman Crisis" (2008/09).

The 10-day capital requirement is however obtained by extending the 1-day risk measure to the 10 day horizon taking the maximum of the square root of time scaling and a convolution approach that turns the one-day distribution into a 10-day distribution for both the VaR and the Stressed VaR. The 1-day measures are instead actively used for market risk management.

In order to validate the coherence of VaR internal models used in calculating capital requirements on market risks, back-testing is performed by comparing the internal model risk estimates with the portfolio profit and loss, in order to check if the 99% of the trading outcomes is covered by the 99<sup>th</sup> percentile of the risk measures. The test is based on the last twelve months data (i.e. 250 daily observations). In case that the number of exceptions in the previous year exceeds what forecasted by the confidence level assumed, a careful revision of model parameters and assumptions is initiated. Group Internal Validation performed the periodic validation of the VaR/SVaR framework to assess the compliance with regulatory requirements including an independent back-testing analysis complemented with different parameterisation (e.g. different time horizon, percentile) and detailing the results for a set of representative portfolios of the bank.

The IRC capital charge captures default risk as well as migration risk for un-securitised credit products held in Trading Book. The internally developed model simulates - via multivariate version of a Merton-type model - the rating migration events of all the issuers relevant to the Group trading positions over a capital horizon of one year. The transition probabilities and the sector correlations are historically calibrated, while idiosyncratic correlations are derived from the IRB correlation formula. Simulated migration events are turned into credit spread scenarios while default events are associated to a simulated recovery rate. In so doing a constant position assumption is employed and products are conservatively all attributed a common liquidity horizon of 1 year.

In each scenario all the relevant product inventory is revaluated under such spread and default events producing a simulated Profit or Loss (P&L) that fully reflects convexity, basis risk, portfolio effects and portfolio concentration risks.

In this way a high-number of paths Monte Carlo simulation generates a P&L distribution for the Group (and each leaf of its portfolio tree). IRC is defined as the 99.9 percentile of such loss distribution.

Additional capital charge for securitisations and credit products not covered by IRC is evaluated through the standardised approach.

The following table summarises the main characteristics of the different measures that define the Capital requirement for market risk in UniCredit.

Measure	Risk Type	Horizon	Quantile	Simulation	Calibration
VaR	All Market Risk Factors	1d	99%	Historical	2Y window, equally weighted
SVaR	All Market Risk Factors	1d	99%	Historical	1Y window, equally weighted
IRC	Rating Migration & Default	1Y	99.9%	Monte Carlo	Through-the-cycle (min 8Y)

The IRC Model is subject to a quarterly programme of Stress Tests aimed at evaluating the robustness of the model. The relevant parameters as Recovery Rates, Transition Probabilities, idiosyncratic correlation are shocked and the impact on the IRC measure is computed.

“Group Internal Validation” performed its analyses in order to evaluate the conceptual soundness of the IRC model, to supplement the available analyses on that topic and to ensure the compliance of the resulting risk management environment with all the relevant regulatory requirements and internal standards.

As already remarked by the regulation, traditional back-testing procedures, regarding the 99.9% one-year soundness standard for IRC, are not applicable due to the 1-year time horizon of the measure. Consequently, while validation of the IRC model relied heavily on indirect methods (including stress tests, sensitivity analysis and scenario analysis) in order to assess the qualitative and quantitative reasonableness of the model, special focus has indeed been given to the specific situation of the UniCredit portfolios.

Group Internal Validation kept the scope of their analyses as wide as possible in order to comprise the many diverse issues that are acting concurrently in such a model (general model design, regulatory compliance, numerical implementation, outcomes explanation).

Group Internal Validation performed a full spectrum of validation analyses on the IRC measure calculation using its internal replica libraries.

The replica allows a simple verification of the results provided by the productive environment, and in addition opens up the door to a more dynamical and tailored implementation of the needed tests. The spectrum of analysis encompassed Monte Carlo stability, correlation analysis and stressing, calculation of parameters sensitivity, marginal contribution analysis, alternative models comparisons. All major parameters were tested, i.e. correlation matrices, transition probabilities matrices, transition shocks, recovery rates, probabilities of default, number of scenarios. To understand the overall performance of the model in replicating the real-world migration and default phenomena, Group Internal Validation performed also a historical performance exercise comparing the migrations and defaults predicted by UniCredit IRC model with the ones actually observed since 1981 (due to data availability).

Banca d'Italia authorised UniCredit group to the use of internal models for the calculation of capital requirements for market risk. As of today CEE countries are the main companies of the Group that are using the standardised approach for calculating capital requirements related to trading positions. However, the VaR measure is used for the management of market risk in these latter companies.

For VaR, Stressed VaR and IRC, the bank differentiates between regulatory and managerial views. The Managerial measures including VaR, SVaR and IRC, are used for Risk monitoring and Business steering purposes as prescribed by Market Risk Framework: in particular VaR limits represent the main metric translating the Risk Appetite into the Market Risk framework.

The Managerial VaR has a wider scope: it is used to monitor both Trading Book and Overall perimeter (Trading Book + Banking Book), in order to have a complete picture of risk.

The standardised measurement method is also applied to the calculation of capital covering the risk of holding Banking Book exposure in foreign currencies for the Legal Entities (namely UniCredit S.p.A.) that do not have an approval for FX Risk simulation under Internal Model.

The major differences between the application of the model on the Trading Book according to a Regulatory and Managerial view are:

- Internal Model approach is used for Regulatory purposes for UniCredit S.p.A., UniCredit Bank AG, UniCredit Bank Austria AG and UniCredit Bank Austria Group, while it is used for all Legal Entities (including CEE countries) for Managerial purposes;
- inclusion in VaR and Stressed VaR of the FX risk for both Trading and the Banking Book for Regulatory purposes as for the approved legal entities (UniCredit Bank AG and UniCredit Bank Austria AG); for those where it is not approved yet (namely UniCredit S.p.A.) it is instead being activated in the managerial run.

Measure	View	UniCredit Bank AG	UniCredit Bank Austria AG	UniCredit S.p.A.	CEE Legal Entities
FX Risk BB	Reg	YES	YES	NO	NO
	Mng	NO	YES	NO	YES

Finally Trading portfolios are subject to Stress tests according to a wide range of simple and complex scenarios. Simple scenarios which envisage the shock of single asset classes, are defined in the context of Interest Rate Risk/Price Risk/Exchange Rate Risk/Credit Spread Risk Sensitivity.

## Part E - Information on risks and hedging policies

Complex scenarios apply simultaneous changes on a number of risk factors. Both simple and complex scenarios are applied to the whole Trading Book. Detailed descriptions are included in Part E - Information on risks and hedging policies, paragraphs 2.7 and 2.8. Stress tests results are calculated in the Group Market Risk system (UGRM), thus ensuring a common methodological approach across the Group. Results are calculated applying a full revaluation approach meaning that all positions are revalued under stressed conditions; no ad hoc models or pricing functions are applied for stress testing.

According to national regulations, some relevant scenarios are also a matter of regulatory reporting on a quarterly basis.

In addition a set of scenarios is run monthly on overall Group perimeter, thus covering both Trading and Banking Book positions. Results are discussed monthly in Market Risk Stress Test Open Forum involving Market Risk function's representatives of all legal entities and Business' representatives. Results are analysed in depth in monthly report 'Monthly Overview on Market Stress Test'.

Stress test Warning levels Usage is monitored monthly. More details on Warning Levels and Strategy are given in under Part E - Information on risks and hedging policies paragraph "2. Risk Management Strategies and Processes".

All details about policies and procedures for the overall management of the Trading Book and the prudent valuation of their Trading Book positions are defined in section A.4 - Information on Fair Value.

Shown below are the VaR data on the market risk for the trading book.

### Daily VaR on Trading Book

(€ million)

	12.29.2017	2017			2016
		AVERAGE	MAX	MIN	AVERAGE
UniCredit S.p.A.	4.35	4.3	11.1	2.6	5.4

Shown below are the SVaR data on the market risk for the trading book.

### SVaR on Trading Book

(€ million)

	12.28.2017	2017			2016
		AVERAGE	MAX	MIN	AVERAGE
UniCredit S.p.A.	26.48	17.86	28.07	8.56	19.13

Shown below are the IRC data on the market risk for the trading book.

### IRC on Trading Book

(€ million)

	12.28.2017	2017			2016
		AVERAGE	MAX	MIN	AVERAGE
UniCredit S.p.A.	398.6	182.4	398.6	9.2	302.8



## 2.1 Interest rate risk and price risk - Regulatory trading book

### Qualitative information

#### A. General aspects, operational processes and methods for measuring interest rate risk and price risk

Interest rate risk arises from financial positions taken by UniCredit S.p.A. holding assigned market risk limits within certain levels of discretion. Apart from use of internal models in calculating capital requirements on market risks, risk positions in UniCredit S.p.A. are monitored and subject to limits assigned to the portfolios on the base of managerial responsibilities and not purely on regulatory criteria.

As described above, price risk relating to equities, commodities, investment funds and related derivative products included in the Trading Book originates from positions taken by Group specialist centres holding assigned market risk limits within certain levels of discretion. Price risk deriving from own trading of these instruments is managed using both directional and relative value strategies via direct sale and purchase of securities, regulated derivatives and OTCs and recourse to security lending. Volatility trading strategies are implemented using options and complex derivatives.

#### B. Risk Management Processes and Measurement Methods

For both a description of internal processes for monitoring and managing risk and an illustration of the methodologies used to analyze exposure, please refer also to introduction on internal models.

In addition to the monitoring of Granular Market Limits, Financial Risk Italy function conducts sensitivity analysis at least on monthly basis, in order to determine the effect on the income statement of changes in the value of individual risk factors or several risk factors of the same type. Results are reported to top management on a monthly basis.

In addition to the sensitivity of financial instruments to changes in the underlying risk factor, it also calculated sensitivity to the volatility of interest rates assuming positive and negative shifts of 30% in volatility curves or matrices.

For both a description of internal processes for monitoring and managing risk and an illustration of the methodologies used to analyze exposure, please refer to introduction on internal models.

## 2.2 Interest rate and price risk - Banking Book

### Interest rate risk

#### Qualitative information

#### A. General aspects, operational processes and methods for measuring interest rate risk and price risk

The main target of IRRBB strategy is the reduction of net interest income volatility in a multiyear horizon.

Interest rate risk consists of changes in interest rates that are reflected in:

- interest income sources, and thus, the bank's earnings (cash flow risk);
- the net present value of assets and liabilities, due to their impact on the present value of future cash flows (fair value risk).

UniCredit S.p.A. measures and monitors this risk within the framework of a Banking Book interest rate risk policy that establishes consistent methodologies and models and limits or thresholds to focus on, with regard to the sensitivity of net interest income and the Group's economic value. Interest rate risk has an impact on all owned positions resulting from business operations and strategic investment decisions (Banking Book).

At 29 December 2017, the sensitivity of interest income to an immediate and parallel shift of +100bps was +€563 million.

The sensitivity of the economic value of shareholders' equity to an immediate and parallel change in interest rates ("parallel shift") of +200bps was +€198 million at 29 December 2017<sup>13</sup>.

<sup>13</sup> The figures include modeled sensitivity estimates for assets and liabilities with not well-defined maturities, such as sight and savings deposits.

## Part E - Information on risks and hedging policies

The main sources of interest rate risk can be classified as follows:

- Repricing risk: risk resulting from differences in interest reset date of assets and liabilities. Mismatches in interest reset dates lead to yield curve risk. This refers to the risk resulting from exposure of the bank's positions to changes in the slope and shape of the yield curve. Basis risk resulting from the imperfect correlation in lending and borrowing interest rate changes for different instruments;
- Optional risk: risk resulting from implicit or explicit options in the Group's Banking Book positions. Embedded options in the bank's mortgage portfolio are a relevant example.

Limits and threshold are defined in terms Sensitivity.

Interest rate risk measurement includes:

- Net Interest Income analysis: this involves a constant balance sheet analysis (i.e. assuming that positions remain constant during the period), an impact simulation on interest income for the current period is performed, by taking into account elasticity assumptions for sight items. In addition a simulation analysis includes the analysis of the impact on income from different shocks for the interest rates. Reference shocks for a rate rise and a rate fall scenario are an instantaneous and parallel shock of respectively +/- 100bps. Additional scenarios are performed to take into account basis risk and non-parallel shifts.
- Economic Value analysis: this includes the calculation of duration measures, value sensitivities of the balance sheet for different points on the curve, as well as the impact on the Economic Value from larger shocks, e.g. a 200bps parallel shift.

The interest rate risk is monitored in terms of Economic value sensitivity for an instantaneous and parallel shock of +1 basis point value of the interest rate term structure. On a monthly basis the Economic Value sensitivity for interest rate term structure shock of +200 basis point value and Net Interest Income Sensitivity are measured. The function responsible for interest rate risk management verifies on a daily basis the limit usage of the interest rate risk of relevant positions.

The Treasury hedges interest rate risk exposure from commercial transactions. The Treasury interest rate risk exposure is monitored through a set of limits and threshold levels. The same holds for the overall interest rate exposure of the balance sheet, taking into account also the strategic investment positions of the bank, e.g. transactions not directly related to hedging the commercial business.

### *B. Fair value hedging operations*

Hedging strategies aimed at complying with interest rate risk limits for the banking portfolio are carried out with listed or unlisted derivative contracts, and the latter, which are commonly interest rate swaps, are the type of contracts used the most.

Macro-hedging is generally used, meaning hedges related to the amounts of cash contained in asset or liability portfolios. Under certain circumstances, the impact of micro-hedges related to securities issued or individual financial assets are recognised (especially when they are classified in the available-for-sale portfolio).

### *C. Cash flow hedging operations*

In certain instances, cash flow hedging strategies are also used as an alternative to fair value hedging strategies in order to stabilise income statement profits in the current and future years. Macro-hedging strategies are mainly used and they may also refer to the interest rate risk of the core portion of financial assets "on demand".

## Quantitative information

### 1. Banking book: breakdown by maturity (repricing date) of financial assets and liabilities

(€ '000)

TYPE/RESIDUAL MATURITY	AMOUNTS AS AT 12.31.2017							UNSPECIFIED MATURITY
	ON DEMAND	UP TO 3 MONTHS	3 TO 6 MONTHS	6 MONTHS TO 1 YEAR	1 TO 5 YEARS	5 TO 10 YEARS	OVER 10 YEARS	
<b>1. On-balance sheet assets</b>	<b>31,938,739</b>	<b>136,893,599</b>	<b>19,363,258</b>	<b>18,223,924</b>	<b>64,228,436</b>	<b>16,310,915</b>	<b>7,535,127</b>	-
1.1 Debt securities	606,727	8,210,392	6,956,874	9,372,895	28,371,006	6,478,331	579,778	-
- With prepayment option	-	-	-	-	-	-	-	-
- Other	606,727	8,210,392	6,956,874	9,372,895	28,371,006	6,478,331	579,778	-
1.2 Loans to banks	5,056,643	16,834,326	1,269,433	854,488	3,302,401	-	-	-
1.3 Loans to customers	26,275,369	111,848,881	11,136,951	7,996,541	32,555,029	9,832,584	6,955,349	-
- Current accounts	16,046,480	37,893	7,900	383,512	1,171,647	116,808	25,854	-
- Other loans	10,228,889	111,810,988	11,129,051	7,613,029	31,383,382	9,715,776	6,929,495	-
- With prepayment option	2,211,689	58,377,831	7,375,969	3,859,553	23,072,335	7,776,060	5,852,592	-
- Other	8,017,200	53,433,157	3,753,082	3,753,476	8,311,047	1,939,716	1,076,903	-
<b>2. On-balance sheet liabilities</b>	<b>165,961,613</b>	<b>72,319,609</b>	<b>10,701,996</b>	<b>9,189,521</b>	<b>48,265,742</b>	<b>11,465,078</b>	<b>3,023,830</b>	-
2.1 Deposits from customers	158,306,910	33,451,886	1,246,022	623,092	475,597	224,623	2,104,018	-
- Current accounts	152,371,631	-	-	-	-	-	-	-
- Other	5,935,279	33,451,886	1,246,022	623,092	475,597	224,623	2,104,018	-
- With prepayment option	-	-	-	-	-	-	-	-
- Other	5,935,279	33,451,886	1,246,022	623,092	475,597	224,623	2,104,018	-
2.2 Deposits from banks	6,848,979	11,600,528	2,968,656	817,662	34,537,992	23,433	9,766	-
- Current accounts	2,060,046	-	-	-	-	-	-	-
- Other	4,788,933	11,600,528	2,968,656	817,662	34,537,992	23,433	9,766	-
2.3 Debt securities in issue	800,755	27,267,195	6,487,318	7,748,767	13,252,153	11,217,022	910,046	-
- With prepayment option	-	-	-	-	-	-	-	-
- Other	800,755	27,267,195	6,487,318	7,748,767	13,252,153	11,217,022	910,046	-
2.4 Other liabilities	4,969	-	-	-	-	-	-	-
- With prepayment option	-	-	-	-	-	-	-	-
- Other	4,969	-	-	-	-	-	-	-
<b>3. Financial derivatives</b>								
3.1 Physically settled financial								
- Option								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	1,234,343	88,882	-	-
3.2 Cash settled financial derivatives								
- Option								
+ Long positions	-	357,411	5,823	11,647	92,397	694,237	16,090	-
+ Short positions	-	329,655	5,823	11,647	93,072	661,475	17,022	-
- Other derivatives								
+ Long positions	5,920,437	194,419,880	34,441,597	52,217,347	235,975,361	36,572,459	1,631,974	-
+ Short positions	3,410,032	192,987,371	46,017,216	57,958,833	235,533,838	16,591,569	5,169,253	-
<b>4. Other off-balance sheet transactions</b>								
+ Long positions	48,285	7,789,547	1,330,235	786,661	2,825,345	5	-	-
+ Short positions	6,299,277	4,554,139	505,190	1,020,509	400,965	-	-	-

## Part E - Information on risks and hedging policies

## 1.1 Banking book: breakdown by maturity (repricing date) of financial assets and liabilities - Currency: euro

(€ '000)

TYPE/RESIDUAL MATURITY	AMOUNTS AS AT 12.31.2017							UNSPECIFIED MATURITY
	ON DEMAND	UP TO 3 MONTHS	3 TO 6 MONTHS	6 MONTHS TO 1 YEAR	1 TO 5 YEARS	5 TO 10 YEARS	OVER 10 YEARS	
<b>1. On-balance sheet assets</b>	<b>29,525,768</b>	<b>133,353,093</b>	<b>17,679,675</b>	<b>17,917,556</b>	<b>61,225,865</b>	<b>15,969,740</b>	<b>7,223,979</b>	-
1.1 Debt securities	601,668	8,206,444	6,940,588	9,372,895	27,383,351	6,340,880	571,429	-
- With prepayment option	-	-	-	-	-	-	-	-
- Other	601,668	8,206,444	6,940,588	9,372,895	27,383,351	6,340,880	571,429	-
1.2 Loans to banks	3,271,417	15,638,758	610,575	735,227	3,216,987	-	-	-
1.3 Loans to customers	25,652,683	109,507,891	10,128,512	7,809,434	30,625,527	9,628,860	6,652,550	-
- Current accounts	15,665,464	36,165	7,900	383,508	1,160,839	116,807	25,853	-
- Other loans	9,987,219	109,471,726	10,120,612	7,425,926	29,464,688	9,512,053	6,626,697	-
- With prepayment option	2,211,228	58,352,676	7,374,141	3,855,748	23,030,728	7,766,629	5,852,592	-
- Other	7,775,991	51,119,050	2,746,471	3,570,178	6,433,960	1,745,424	774,105	-
<b>2. On-balance sheet liabilities</b>	<b>160,212,557</b>	<b>68,728,800</b>	<b>9,954,132</b>	<b>9,123,713</b>	<b>46,894,297</b>	<b>10,421,652</b>	<b>2,195,386</b>	-
2.1 Deposits from customers	155,463,993	33,292,065	1,245,350	623,067	470,311	224,623	2,104,018	-
- Current accounts	149,889,474	-	-	-	-	-	-	-
- Other	5,574,519	33,292,065	1,245,350	623,067	470,311	224,623	2,104,018	-
- With prepayment option	-	-	-	-	-	-	-	-
- Other	5,574,519	33,292,065	1,245,350	623,067	470,311	224,623	2,104,018	-
2.2 Deposits from banks	3,967,556	9,005,728	2,890,925	751,879	34,492,465	20,557	9,766	-
- Current accounts	1,272,648	-	-	-	-	-	-	-
- Other	2,694,908	9,005,728	2,890,925	751,879	34,492,465	20,557	9,766	-
2.3 Debt securities in issue	776,039	26,431,007	5,817,857	7,748,767	11,931,521	10,176,472	81,602	-
- With prepayment option	-	-	-	-	-	-	-	-
- Other	776,039	26,431,007	5,817,857	7,748,767	11,931,521	10,176,472	81,602	-
2.4 Other liabilities	4,969	-	-	-	-	-	-	-
- With prepayment option	-	-	-	-	-	-	-	-
- Other	4,969	-	-	-	-	-	-	-
<b>3. Financial derivatives</b>								
3.1 Physically settled financial								
- Option								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Cash settled financial derivatives								
- Option								
+ Long positions	-	357,411	5,823	11,647	92,397	112,931	16,090	-
+ Short positions	-	5,824	5,823	11,647	93,072	661,475	17,022	-
- Other derivatives								
+ Long positions	5,837,055	187,175,642	32,328,798	51,241,383	231,634,571	33,904,414	1,592,359	-
+ Short positions	3,326,650	183,373,840	45,828,231	57,168,887	231,945,694	15,395,655	5,129,638	-
<b>4. Other off-balance sheet transactions</b>								
+ Long positions	1,173	7,559,872	1,310,855	786,528	2,804,500	5	-	-
+ Short positions	6,299,277	4,239,520	502,664	1,020,509	400,965	-	-	-

1.2 Banking book: breakdown by maturity (repricing date) of financial assets and liabilities - Currency: other currencies

(€ '000)

TYPE/RESIDUAL MATURITY	AMOUNTS AS AT 12.31.2017							UNSPECIFIED MATURITY
	ON DEMAND	UP TO 3 MONTHS	3 TO 6 MONTHS	6 MONTHS TO 1 YEAR	1 TO 5 YEARS	5 TO 10 YEARS	OVER 10 YEARS	
<b>1. On-balance sheet assets</b>	<b>2,412,971</b>	<b>3,540,506</b>	<b>1,683,583</b>	<b>306,368</b>	<b>3,002,571</b>	<b>341,175</b>	<b>311,148</b>	-
1.1 Debt securities	5,059	3,948	16,286	-	987,655	137,451	8,349	-
- With prepayment option	-	-	-	-	-	-	-	-
- Other	5,059	3,948	16,286	-	987,655	137,451	8,349	-
1.2 Loans to banks	1,785,226	1,195,568	658,858	119,261	85,414	-	-	-
1.3 Loans to customers	622,686	2,340,990	1,008,439	187,107	1,929,502	203,724	302,799	-
- Current accounts	381,016	1,728	-	4	10,808	1	1	-
- Other loans	241,670	2,339,262	1,008,439	187,103	1,918,694	203,723	302,798	-
- With prepayment option	461	25,155	1,828	3,805	41,607	9,431	-	-
- Other	241,209	2,314,107	1,006,611	183,298	1,877,087	194,292	302,798	-
<b>2. On-balance sheet liabilities</b>	<b>5,749,056</b>	<b>3,590,809</b>	<b>747,864</b>	<b>65,808</b>	<b>1,371,445</b>	<b>1,043,426</b>	<b>828,444</b>	-
2.1 Deposits from customers	2,842,917	159,821	672	25	5,286	-	-	-
- Current accounts	2,482,157	-	-	-	-	-	-	-
- Other	360,760	159,821	672	25	5,286	-	-	-
- With prepayment option	-	-	-	-	-	-	-	-
- Other	360,760	159,821	672	25	5,286	-	-	-
2.2 Deposits from banks	2,881,423	2,594,800	77,731	65,783	45,527	2,876	-	-
- Current accounts	787,398	-	-	-	-	-	-	-
- Other	2,094,025	2,594,800	77,731	65,783	45,527	2,876	-	-
2.3 Debt securities in issue	24,716	836,188	669,461	-	1,320,632	1,040,550	828,444	-
- With prepayment option	-	-	-	-	-	-	-	-
- Other	24,716	836,188	669,461	-	1,320,632	1,040,550	828,444	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- With prepayment option	-	-	-	-	-	-	-	-
- Other	-	-	-	-	-	-	-	-
<b>3. Financial derivatives</b>								
3.1 Physically settled financial								
- Option								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	1,234,343	88,882	-	-
3.2 Cash settled financial derivatives								
- Option								
+ Long positions	-	-	-	-	-	581,306	-	-
+ Short positions	-	323,831	-	-	-	-	-	-
- Other derivatives								
+ Long positions	83,382	7,244,238	2,112,799	975,964	4,340,790	2,668,045	39,615	-
+ Short positions	83,382	9,613,531	188,985	789,946	3,588,144	1,195,914	39,615	-
<b>4. Other off-balance sheet transactions</b>								
+ Long positions	47,112	229,675	19,380	133	20,845	-	-	-
+ Short positions	-	314,619	2,526	-	-	-	-	-

## Part E - Information on risks and hedging policies

### **Price risk**

#### **Qualitative information**

##### *A. General aspects, price risk management processes and measurement methods*

Banking Book price risk primarily originates from equity interests held by the Parent Company and its subsidiaries as stable investments, as well as units in mutual investment funds not included in the Trading Book as they are also held as stable investments. The assessment of the whole Banking Book also takes account of this type of risk.

### **2.3 Exchange rate risk**

#### **Qualitative information**

##### **General aspects, exchange rate risk management processes and measurement methods**

##### *A. Banking book*

Exchange rate risk originates both from UniCredit S.p.A. operating in currency areas other than the Eurozone and from positions taken by UniCredit S.p.A. holding market risk within the limits assigned.

In the latter case, exchange risk originates from currency trading activities performed through the negotiation of the various market instruments and it is constantly monitored and measured by using internal models developed by Group companies. These models are, in addition, used to calculate capital requirements on market risks due to the exposure to such risk.

##### *B. Regulatory trading book*

As described above, risk relating to exchange rates and related derivative products included in the Trading Book, originates from positions taken by UniCredit S.p.A. holding assigned market risk limits within certain levels of discretion.

Risk deriving from own trading of these instruments is managed using both directional and relative value strategies via direct sale and purchase of securities, regulated derivatives and OTC. Volatility trading strategies are implemented using options.

For both a description of internal processes for monitoring and managing risk and an illustration of the methodologies used to analyze exposure, please refer to introduction on internal models.

## Quantitative information

### 1. Distribution by currency of assets and liabilities and derivatives

(€ '000)

ITEMS	AMOUNTS AS AT 12.31.2017					
	CURRENCIES					
	USD	GBP	YEN	CHF	CAD	OTHER CURRENCIES
<b>A. Financial assets</b>	<b>8,932,199</b>	<b>202,139</b>	<b>734,231</b>	<b>58,044</b>	<b>110,897</b>	<b>2,168,881</b>
A.1 Debt securities	441,646	-	719,525	-	-	-
A.2 Equity securities	413,066	-	-	3,219	-	509,381
A.3 Loans to banks	3,128,845	47,911	1,691	8,342	19,347	640,729
A.4 Loans to customers	4,948,642	154,228	13,015	46,483	91,550	1,018,771
A.5 Other financial assets	-	-	-	-	-	-
<b>B. Other assets</b>	<b>1,135,637</b>	<b>163,866</b>	<b>22,982</b>	<b>4,176</b>	<b>1,662</b>	<b>62,070</b>
<b>C. Financial liabilities</b>	<b>10,976,769</b>	<b>564,802</b>	<b>69,085</b>	<b>159,056</b>	<b>391,869</b>	<b>1,235,311</b>
C.1 Deposits from banks	4,280,520	364,280	17,208	120,770	51,314	834,086
C.2 Deposits from customers	2,543,921	166,743	14,795	38,286	40,456	204,521
C.3 Debt securities in issue	4,152,328	33,779	37,082	-	300,099	196,704
C.4 Other financial liabilities	-	-	-	-	-	-
<b>D. Other liabilities</b>	<b>30,950</b>	<b>5,472</b>	<b>15,836</b>	<b>152</b>	<b>21</b>	<b>10,994</b>
<b>E. Financial derivatives</b>						
- Options						
- Long positions	1,034,879	2,897	296	121	317	24,978
- Short positions	777,405	2,897	296	121	317	24,978
- Other						
- Long positions	42,530,501	2,462,719	632,973	710,610	502,736	4,854,062
- Short positions	41,900,650	2,290,735	1,386,308	611,078	225,984	5,323,583
<b>Total assets</b>	<b>53,633,216</b>	<b>2,831,621</b>	<b>1,390,482</b>	<b>772,951</b>	<b>615,612</b>	<b>7,109,991</b>
<b>Total liabilities</b>	<b>53,685,774</b>	<b>2,863,906</b>	<b>1,471,525</b>	<b>770,407</b>	<b>618,191</b>	<b>6,594,866</b>
<b>Difference (+/-)</b>	<b>(52,558)</b>	<b>(32,285)</b>	<b>(81,043)</b>	<b>2,544</b>	<b>(2,579)</b>	<b>515,125</b>

## Credit spread risk

### Qualitative information

#### A. General aspects

As described above, risk relating to credit spreads included in both trading book and banking book, originates from positions taken by UniCredit S.p.A. holding assigned market risk limits within certain levels of discretion.

Risk deriving from own trading of these instruments is managed using both directional and relative value strategies via direct sale and purchase of securities, regulated derivatives and OTC.

#### B. Risk management processes and measurement methods

For both a description of internal processes for monitoring and managing risk and an illustration of the methodologies used to analyze exposure, please refer to introduction on internal models.

Credit spread sensitivity is calculated by assuming a worsening of creditworthiness seen in a parallel shift of +1bp in the credit spread curves. These sensitivities are calculated both inclusively, assuming a parallel shift of all the credit spread curves, and in respect of specific rating classes and economic sectors.

#### Stress testing

Stress tests complement the sensitivity analysis and VaR results in order to assess the potential risks in a different way. A stress test performs the evaluation of a portfolio under both simple scenarios (assuming change to single risk factors) and complex scenarios (assuming simultaneous changes in a number of risk factors).

What follows contains the description of complex scenarios, which combine changes in interest rate, price, exchange-rate and credit spread risk factors. For the description of simple scenarios, please refer to the previous paragraphs.

As far as complex scenarios are concerned, different scenarios have been applied to the whole Group Trading Book on a monthly basis and reported to top management.

## Part E - Information on risks and hedging policies

### Widespread Contagion

In this scenario, we assume an intensification of political risks across the EU. Confidence of financial markets, businesses and households sours, leading to tighter financial conditions and lower economic activity.

UK growth, which is already suffering from an increase in uncertainty following the vote to leave the EU, would be hit by an intensification of political risks in the rest of the EU. Uncertainty will weigh on UK business investment, trade and capital flows, with knock-on effects on consumer confidence. It could also prolong negotiations over the UK's exit status from the EU.

In GDP space, Italy and Spain are most impacted. France follows suit, while Germany is the least affected. At the eurozone level, GDP growth is seen slowing to 0.4% in 2018 and contracting 0.1% in 2019, with a cumulative loss vs. baseline of 3pp.

Inflation in the eurozone would remain low in 2018 and 2019, reflecting a wider output gap and lower oil prices, while the weaker euro is expected to partially offset some of these drags. The unemployment rate would resume rising in 2018, putting further downward pressure on nominal wage growth from the current weak levels.

The ECB would cut the deposit rate, now de facto the true policy rate, by 10bp to -0.50%, while keeping the refi rate at 0.00%. The size of the rate cut is modest compared to the magnitude of the growth and inflation shock, but we believe the ECB is very close to the effective lower bound as side effects of negative rates start becoming more evident. Another dose of QE appears likely at a time of meaningful deviation from the price stability target.

In the UK, economic activity slows and contracts in 2018. The opening up of a sizable output gap and the fall in sterling import prices (with lower USD oil prices more than offsetting sterling depreciation) means inflation stays subdued for longer. The rise in unemployment and the fall in inflation moderates wage growth. Capital outflows force a rapid adjustment of the UK's large current account deficit in 2019. The response of fiscal authorities is to ease policy, while the Bank of England remains in hold at 0.50%.

The US economy should be less affected than EU. The reason is that most of the growth in the US comes from domestic demand, notably consumer spending, therefore direct and indirect trade linkages with Europe are not going to be a huge drag, even when accounting for the spillover on US investment activity. The main transmission channel of the shock is lower stock prices, which directly affect US household finances and balance sheets. Although not particularly severe for the US economy, the shock will significantly limit the scope for further rate increases.

### Protectionism, China slowdown & Turkey shock

In this risk scenario, we assume the introduction of protectionist policies in the US (this, however, does not escalate into a global trade war), which intensify downward pressure on GDP growth in emerging markets, especially China, where growth slows from just below 7% to 3% by the end of 2019. On top of this, we assume a large growth shock in Turkey, mainly related to the deterioration of the domestic political picture.

This scenario implies a more global shock than Widespread Contagion and the main transmission channels are trade and financial markets, the latter predominantly via an aggressive sell-off in risky assets and its negative impact on confidence and investment plans. Moreover, as China is a big commodity importer, its slowdown is expected to increase downward pressure on commodity prices, damaging commodity producers like Russia. The drag on eurozone GDP via the trade channel is supposed to account for a smaller share of the total growth shock, as most of the hit comes from the financial and confidence channel.

In general, we assume the overall drag to reflect the openness of the economy and the weight of China as an export destination, with China accounting for 3-4% of total eurozone exports (i.e. intra + extra EMU exports). Among the main euro area countries, Germany has by far the largest exposure to trade and China. The latter accounts for about 6% of German exports, followed by France (about 4%), Italy (about 2.5%) and Spain (less than 2.0%). As a consequence, Germany is expected to be the most damaged country in this risk scenario, while Spain is likely to be the least impacted. Austria is treated differently, because it has only a small direct trade exposure to China, but very large exposure to Germany. In our estimates, this implies a growth shock that exceeds that for the eurozone.

In this risk scenario, eurozone growth is assumed to slide in negative territory already in 2018 (-0.4%), with the pace of contraction increasing in 2019 (-0.7%). The cumulative GDP loss vs. baseline would be almost 4.5pp.



Germany would experience a GDP contraction of 1.2% in 2018 and 1.8% in 2019. The negative impact of the trade and financial shocks on the German economy is assumed to be partly mitigated by fiscal policy (with the main aim to support labor income), while in the other eurozone countries, where room for maneuver on fiscal policy is smaller, the fiscal deficit deterioration will largely reflect automatic stabilisers, like an increase in unemployment benefits. Lower oil prices work as automatic stabiliser, reducing the scale of the GDP shock in energy-importing countries.

Inflation in the eurozone will likely be lower compared to Widespread Contagion, as higher tariffs on international trade are more than offset by the large decline in oil prices and increasing economic slack.

In a context of a global growth slowdown amid weaker commodity prices, the ECB would act further by cutting the deposit rate by a cumulative 20bp over a two years horizon to -0.60%, while keeping the refi rate at 0.00%. The size of the rate cut is modest compared to the magnitude of the growth and inflation shock, but we believe the ECB is very close to the effective lower bound as side effects of negative rates start becoming more evident. Another dose of QE appears likely at a time of meaningful deviation from the price stability target.

The UK is an open economy, although the trade exposure to China is small. We assume a large adverse growth impact via the shock to global confidence and capital flows. The UK economy enters a mild recession in 2017, which intensifies in 2018.

The steep fall in oil prices and other global commodity prices results in a lower path for UK inflation. Unemployment rises as the economy slows.

The US economy should be less affected than the eurozone, due to some short term positive impact of protectionist measures and to its stronger reliance on domestic demand. However, in this scenario of a more global shock, weaker global growth is expected to slow the US recovery (GDP at 1.2% in 2018 and 0.7% in 2019) through weaker exports and a cutback in investment activity, which eventually will weigh on the labor market and thus on consumer spending as well. The Federal Reserve is likely to remain more accommodative compared to our baseline scenario.

#### **Interest Rate Shock**

In this risk scenario, we assume that interest rates in the eurozone move sharply higher, by 250bp at the short end (refi rate) and by 300bp at the long end (10 years). Importantly, this IR increase is assumed to be totally exogenous, i.e. not driven by macro fundamentals like faster growth or inflation, therefore this scenario should mainly be seen as a purely technical exercise. We also assume that the IR increase is totally passed on to households and firms, meaning that there is no ECB facility that is capable to stop the full pass-through to the real economy. In the second year of the forecast horizon, IR start responding endogenously to macro developments and we assume that the ECB eases monetary policy to counter the material deterioration in the growth and inflation outlook triggered by the IR jump. We assume that half of the refi rate increase is reversed in 2019, the refi rate falls to 1.25% at the end of 2019.

The sharp rise in IR along with its pass-through is highly damaging for growth in the eurozone (GDP: -0.5% in 2018, -1.2% in 2019), with a 5pp cumulative loss vs. baseline. Within the eurozone, Italy is hit mainly because of high public debt while Spain because of the still high (although falling) leverage of the private sector. The growth damage is smaller in Germany, where leverage (both private and public) is relatively low. The recession causes a clear deterioration of the labor market, with the eurozone unemployment rate seen rising back to an average of 9.9% in 2018 and 10.6% in 2019.

The eurozone witnesses broadly flat growth in consumer prices in both years, due to the mix of falling oil prices and widening output gap.

The substantial tightening of financial conditions in the euro area is transmitted to the UK economy via the significant trade and capital flows between the two economic areas. The UK enters a mild recession that lowers GDP by 0.3% in 2018 and by a further 0.2% in 2019, dragged down by high household and public debt. Inflation slows below 2% in 2018 and approaches 0% in 2019 as a result of the fall in oil prices and growing spare capacity. The external nature of the shock hits exports. Nonetheless, the current account deficit improves slightly faster than in the baseline scenario as capital markets force a more pronounced adjustment. The BoE holds the Bank Rate at 0.50%.

The US economy should remain relatively less affected than the eurozone also in this scenario. As consumer spending is expected to remain the main growth driver, the main transmission channels of this shock are higher interest rates and lower stock prices, which directly affect household finances and balance sheets. In particular, this shock with its sizeable negative impact on the stock market should have the largest effect on economic activity in the US, with GDP recording the largest cumulative deviation from the baseline. After the initial shock in IR at the beginning of the horizon, the Fed is expected to keep a more accommodative stance relative to our baseline scenario in the first year and remain on hold thereafter.

## Part E - Information on risks and hedging policies

## Stress Test on trading book

28 December 2017

## Scenario

(€ million)

	2017		
	WIDESPREAD CONTAGION	PROTECTIONISM	IR SHOCK
UniCredit S.p.A.	-114	-140	-108

## 2.4 Derivative instruments

## A. Financial derivatives

## A.1 Regulatory trading book: end of period notional amounts

(€ '000)

DERIVATIVE INSTRUMENT TYPES/UNDERLYINGS	AMOUNTS AS AT 12.31.2017		AMOUNTS AS AT 12.31.2016	
	OVER THE COUNTER	CLEARING HOUSE	OVER THE COUNTER	CLEARING HOUSE
<b>1. Debt securities and interest rate indexes</b>	<b>203,498,121</b>	<b>3,323,103</b>	<b>207,392,027</b>	<b>1,873,395</b>
a) Options	10,327,310	-	6,079,914	100,000
b) Swap	189,890,921	-	199,179,363	-
c) Forward	3,279,890	1,354,303	2,132,750	885,595
d) Futures	-	1,968,800	-	887,800
e) Others	-	-	-	-
<b>2. Equity instruments and stock indexes</b>	<b>275,842</b>	<b>-</b>	<b>962,430</b>	<b>-</b>
a) Options	275,842	-	962,430	-
b) Swap	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
<b>3. Gold and currencies</b>	<b>92,682,847</b>	<b>-</b>	<b>71,071,600</b>	<b>-</b>
a) Options	10,040,929	-	8,417,821	-
b) Swap	14,507,104	-	13,514,268	-
c) Forward	68,134,814	-	49,139,511	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
<b>4. Commodities</b>	<b>3,500,700</b>	<b>-</b>	<b>3,191,254</b>	<b>-</b>
<b>5. Other underlyings</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>299,957,510</b>	<b>3,323,103</b>	<b>282,617,311</b>	<b>1,873,395</b>

Amounts reported in column "Over the counter" of tables A.1, A.2.1, A.2.2, A.3 and A.4 include OTC traded contracts settled with Central Clearing Counterparts.

Column "Clearing House" of tables A.1, A.2.1, A.2.2, A.3 and A.4 includes those contracts negotiated within listed markets and supported by margining processes overriding counterparty risk exposure.

## A.2 Banking portfolio: end of period notional amounts

### A.2.1 Hedging derivatives

(€ '000)

DERIVATIVE INSTRUMENT TYPES/UNDERLYINGS	AMOUNTS AS AT 12.31.2017		AMOUNTS AS AT 12.31.2016	
	OVER THE COUNTER	CLEARING HOUSE	OVER THE COUNTER	CLEARING HOUSE
<b>1. Debt securities and interest rate indexes</b>	<b>512,980,048</b>	-	<b>383,516,948</b>	-
a) Options	2,583,220	-	4,776,511	-
b) Swap	325,117,828	-	296,840,437	-
c) Forward	-	-	-	-
d) Futures	185,279,000	-	81,900,000	-
e) Others	-	-	-	-
<b>2. Equity instruments and stock indexes</b>	-	-	<b>13,000</b>	-
a) Options	-	-	13,000	-
b) Swap	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
<b>3. Gold and currencies</b>	<b>6,702,834</b>	-	<b>5,984,885</b>	-
a) Options	650,379	-	708,678	-
b) Swap	3,748,486	-	2,228,584	-
c) Forward	2,303,969	-	3,047,623	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
<b>4. Commodities</b>	-	-	-	-
<b>5. Other underlyings</b>	-	-	-	-
<b>Total</b>	<b>519,682,882</b>	-	<b>389,514,833</b>	-

### A.2.2 Other derivatives

(€ '000)

DERIVATIVE INSTRUMENT TYPES/UNDERLYINGS	AMOUNTS AS AT 12.31.2017		AMOUNTS AS AT 12.31.2016	
	OVER THE COUNTER	CLEARING HOUSE	OVER THE COUNTER	CLEARING HOUSE
<b>1. Debt securities and interest rate indexes</b>	<b>39,917,076</b>	-	<b>56,473,792</b>	-
a) Options	-	-	20,000	-
b) Swap	39,917,076	-	56,453,792	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
<b>2. Equity instruments and stock indexes</b>	<b>15,203,857</b>	-	<b>11,791,830</b>	-
a) Options	15,203,857	-	11,791,830	-
b) Swap	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
<b>3. Gold and currencies</b>	<b>3,408,588</b>	-	<b>2,450,356</b>	-
a) Options	2,382,838	-	2,047,612	-
b) Swap	-	-	-	-
c) Forward	1,025,750	-	402,744	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
<b>4. Commodities</b>	-	-	-	-
<b>5. Other underlyings</b>	-	-	-	-
<b>Total</b>	<b>58,529,521</b>	-	<b>70,715,978</b>	-

## Part E - Information on risks and hedging policies

## A.3 Financial derivatives: gross positive fair value - breakdown by product

(€ '000)

TRANSACTION TYPES/UNDERLYINGS	POSITIVE FAIR VALUE			
	AMOUNTS AS AT	12.31.2017	AMOUNTS AS AT	12.31.2016
	OVER THE COUNTER	CLEARING HOUSE	OVER THE COUNTER	CLEARING HOUSE
<b>A. Regulatory trading book</b>	<b>5,242,263</b>	<b>37,332</b>	<b>7,359,289</b>	<b>624</b>
a) Options	204,812	-	244,916	-
b) Interest rate swaps	3,430,675	-	4,815,406	-
c) Cross currency swap	724,248	-	1,193,670	-
d) Equity swaps	-	-	-	-
e) Forward	672,902	698	873,008	297
f) Futures	-	36,634	-	327
g) Others	209,626	-	232,289	-
<b>B. Banking book - Hedging derivatives</b>	<b>4,399,939</b>	<b>-</b>	<b>6,095,110</b>	<b>-</b>
a) Options	23,974	-	3,612	-
b) Interest rate swaps	4,287,117	-	5,971,887	-
c) Cross currency swap	33,119	-	108,460	-
d) Equity swaps	-	-	-	-
e) Forward	38,833	-	8,094	-
f) Futures	16,896	-	3,057	-
g) Others	-	-	-	-
<b>C. Banking book - other derivatives</b>	<b>410,059</b>	<b>-</b>	<b>446,025</b>	<b>-</b>
a) Options	295,771	-	294,176	-
b) Interest rate swaps	113,225	-	147,722	-
c) Cross currency swap	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forward	1,063	-	4,127	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
<b>Total</b>	<b>10,052,261</b>	<b>37,332</b>	<b>13,900,424</b>	<b>624</b>

## A.4 Financial derivatives: gross negative fair value - breakdown by product

(€ '000)

PORTFOLIOS/DERIVATIVE INSTRUMENT TYPES	NEGATIVE FAIR VALUE			
	AMOUNTS AS AT	12.31.2017	AMOUNTS AS AT	12.31.2016
	OVER THE COUNTER	CLEARING HOUSE	OVER THE COUNTER	CLEARING HOUSE
<b>A. Regulatory trading book</b>	<b>5,244,368</b>	<b>2,035</b>	<b>7,525,847</b>	<b>2,563</b>
a) Options	208,189	-	248,059	10
b) Interest rate swaps	3,497,873	-	4,880,299	-
c) Cross currency swap	755,416	-	1,193,768	-
d) Equity swaps	-	-	-	-
e) Forward	572,331	669	959,934	66
f) Futures	-	1,366	-	2,487
g) Others	210,559	-	243,787	-
<b>B. Banking book - Hedging derivatives</b>	<b>4,558,320</b>	<b>-</b>	<b>6,126,874</b>	<b>-</b>
a) Options	1,440	-	19,017	-
b) Interest rate swaps	4,394,171	-	5,937,933	-
c) Cross currency swap	123,780	-	118,206	-
d) Equity swaps	-	-	-	-
e) Forward	9,719	-	39,936	-
f) Futures	29,210	-	11,782	-
g) Others	-	-	-	-
<b>C. Banking book - Other derivatives</b>	<b>584,158</b>	<b>-</b>	<b>495,960</b>	<b>-</b>
a) Options	239,375	-	145,655	-
b) Interest rate swaps	327,767	-	348,610	-
c) Cross currency swap	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forward	17,016	-	1,695	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
<b>Total</b>	<b>10,386,846</b>	<b>2,035</b>	<b>14,148,681</b>	<b>2,563</b>

**A.5 OTC Financial derivatives - regulatory trading book: notional amounts, positive and negative gross fair value by counterparty - contracts not included in netting agreement**

(€ '000)

CONTRACTS NOT INCLUDED IN NETTING AGREEMENT	AMOUNTS AS AT 12.31.2017						OTHER ENTITIES
	GOVERNMENTS AND CENTRAL BANKS	OTHER PUBLIC-SECTOR ENTITIES	BANKS	FINANCIAL COMPANIES	INSURANCE COMPANIES	NON-FINANCIAL COMPANIES	
<b>1) Debt securities and interest rate indexes</b>							
- notional amount	1,933,756	792,254	1,379,683	2,243,133	-	18,149,341	40,157
- positive fair value	-	60,114	17,958	19,775	-	395,669	399
- negative fair value	3,504	1,957	1,387	3,701	-	38,972	1
- future exposure	-	7,994	5,789	8,997	-	100,327	199
<b>2) Equity instruments and stock indexes</b>							
- notional amount	-	-	-	1,865	-	968	124,302
- positive fair value	-	-	-	3	-	2	199
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
<b>3) Gold and currencies</b>							
- notional amount	-	-	183,251	161,024	-	7,284,503	129
- positive fair value	-	-	1,586	1,806	-	135,487	-
- negative fair value	-	-	1,117	5,457	-	85,487	-
- future exposure	-	-	1,925	4,320	-	109,150	1
<b>4) Other instruments</b>							
- notional amount	-	-	61,292	-	-	698,590	-
- positive fair value	-	-	5,482	-	-	27,510	-
- negative fair value	-	-	235	-	-	43,014	-
- future exposure	-	-	3,191	-	-	74,948	-

**A.6 OTC Financial derivatives - regulatory trading book: notional amounts, positive and negative gross fair value by counterparty - contracts included in netting agreement**

(€ '000)

CONTRACTS INCLUDED IN NETTING AGREEMENT	AMOUNTS AS AT 12.31.2017						OTHER ENTITIES
	GOVERNMENTS AND CENTRAL BANKS	OTHER PUBLIC-SECTOR ENTITIES	BANKS	FINANCIAL COMPANIES	INSURANCE COMPANIES	NON-FINANCIAL COMPANIES	
<b>1) Debt securities and interest rate indexes</b>							
- notional amount	310,638	100,000	113,865,767	55,497,670	-	9,185,720	-
- positive fair value	768	-	1,151,796	1,304,188	-	536,878	-
- negative fair value	3,052	336	2,056,216	1,293,554	-	160,738	-
<b>2) Equity instruments and stock indexes</b>							
- notional amount	-	-	148,707	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	208	-	-	-	-
<b>3) Gold and currencies</b>							
- notional amount	312,766	8,588	66,795,442	12,747,278	-	5,189,864	-
- positive fair value	-	112	945,539	87,876	-	368,023	-
- negative fair value	3,662	-	1,147,045	89,856	-	133,083	-
<b>4) Other instruments</b>							
- notional amount	-	-	1,750,350	113,291	-	877,177	-
- positive fair value	-	-	153,898	1,537	-	25,658	-
- negative fair value	-	-	61,538	11,723	-	98,525	-

## Part E - Information on risks and hedging policies

**A.7 OTC Financial derivatives - banking book: notional amounts, positive and negative gross fair value by counterparty - contracts not included in netting agreement**

(€ '000)

CONTRACTS NOT INCLUDED IN NETTING AGREEMENT	AMOUNTS AS AT 12.31.2017						
	GOVERNMENTS AND CENTRAL BANKS	OTHER PUBLIC-SECTOR ENTITIES	BANKS	FINANCIAL COMPANIES	INSURANCE COMPANIES	NON-FINANCIAL COMPANIES	OTHER ENTITIES
<b>1) Debt securities and interest rate indexes</b>							
- notional amount	-	-	186,853,494	-	-	-	-
- positive fair value	-	-	16,955	-	-	-	-
- negative fair value	-	-	32,539	-	-	-	-
- future exposure	-	-	232	-	-	-	-
<b>2) Equity instruments and stock indexes</b>							
- notional amount	-	-	-	-	-	-	170,765
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	59,567
- future exposure	-	-	-	-	-	-	-
<b>3) Gold and currencies</b>							
- notional amount	-	-	1,061,531	-	-	791	-
- positive fair value	-	-	1,792	-	-	-	-
- negative fair value	-	-	17,004	-	-	12	-
- future exposure	-	-	10,615	-	-	8	-
<b>4) Other instruments</b>							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-

**A.8 OTC Financial derivatives - banking book: notional amounts, positive and negative gross fair value by counterparty - contracts included in netting agreements**

(€ '000)

CONTRACTS INCLUDED IN NETTING AGREEMENT	AMOUNTS AS AT 12.31.2017						
	GOVERNMENTS AND CENTRAL BANKS	OTHER PUBLIC-SECTOR ENTITIES	BANKS	FINANCIAL COMPANIES	INSURANCE COMPANIES	NON-FINANCIAL COMPANIES	OTHER ENTITIES
<b>1) Debt securities and interest rate indexes</b>							
- notional amount	-	-	349,061,493	16,982,137	-	-	-
- positive fair value	-	-	4,371,537	28,785	-	-	-
- negative fair value	-	-	4,507,537	212,305	-	-	-
<b>2) Equity instruments and stock indexes</b>							
- notional amount	-	-	15,033,092	-	-	-	-
- positive fair value	-	-	268,442	-	-	-	-
- negative fair value	-	-	87,732	-	-	-	-
<b>3) Gold and currencies</b>							
- notional amount	-	-	8,373,707	675,394	-	-	-
- positive fair value	-	-	101,603	20,884	-	-	-
- negative fair value	-	-	225,770	13	-	-	-
<b>4) Other instruments</b>							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-

### A.9 OTC financial derivatives residual maturity: notional amounts

(€ '000)

UNDERLYING/RESIDUAL MATURITY	UP TO 1 YEAR	OVER 1 YEAR UP TO 5 YEAR	OVER 5 YEARS	TOTAL
<b>A. Regulatory trading book</b>	<b>113,811,269</b>	<b>111,636,336</b>	<b>74,509,904</b>	<b>299,957,509</b>
A.1 Financial derivative contracts on debt securities and interest rates	34,104,497	100,413,895	68,979,729	203,498,121
A.2 Financial derivative contracts on equity securities and stock indexes	-	275,842	-	275,842
A.3 Financial derivative contracts on exchange rates and gold	76,541,548	10,611,122	5,530,175	92,682,845
A.4 Financial derivative contracts on other values	3,165,224	335,477	-	3,500,701
<b>B. Banking book</b>	<b>213,493,007</b>	<b>293,636,439</b>	<b>71,082,957</b>	<b>578,212,403</b>
B.1 Financial derivative contracts on debt securities and interest rates	206,334,581	281,453,779	65,108,764	552,897,124
B.2 Financial derivative contracts on equity securities and stock indexes	2,319,393	9,583,662	3,300,802	15,203,857
B.3 Financial derivative contracts on exchange rates and gold	4,839,033	2,598,998	2,673,391	10,111,422
B.4 Financial derivative contracts on other values	-	-	-	-
<b>Total 12.31.2017</b>	<b>327,304,276</b>	<b>405,272,775</b>	<b>145,592,861</b>	<b>878,169,912</b>
<b>Total 12.31.2016</b>	<b>266,417,884</b>	<b>328,979,131</b>	<b>147,451,108</b>	<b>742,848,123</b>

### B. Credit derivatives

No data to be disclosed.

### C. Financial and credit derivatives

#### C.1 OTC Financial and credit derivatives: net fair values and future exposure by counterparty

(€ '000)

	AMOUNTS AS AT 12.31.2017						
	GOVERNMENTS AND CENTRAL BANKS	OTHER PUBLIC-SECTOR ENTITIES	BANKS	FINANCIAL COMPANIES	INSURANCE COMPANIES	NON-FINANCIAL COMPANIES	OTHER ENTITIES
<b>1) Netting agreements related to Financial Derivatives</b>							
- positive fair value	-	-	289,050	40,979	-	719,940	-
- negative fair value	5,946	224	1,382,281	205,158	-	181,727	-
- future exposure	1,906	635	1,985,915	145,887	-	243,151	-
- net counterparty risk	1,906	635	2,118,303	178,371	-	936,891	-
<b>2) Netting agreements related to Credit Derivatives</b>							
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
- net counterparty risk	-	-	-	-	-	-	-
<b>3) Cross Product netting agreements</b>							
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
- net counterparty risk	-	-	-	-	-	-	-

## Part E - Information on risks and hedging policies

### Section 3 - Liquidity risk

#### Qualitative information

Liquidity risk is defined as the risk that the Bank may find itself unable to fulfil its expected or unexpected payment obligations (by cash or delivery) current and future without jeopardising its day-to-day operations or its financial condition.

#### *The key principles*

##### *The Liquidity Reference Banks*

UniCredit S.p.A. aims to maintain liquidity at a level that enables to fund its operations at the best rate conditions under normal operating circumstances, and to remain always in a position to meet payment obligations.

To this end, UniCredit S.p.A. complies accurately with the legal and regulatory provisions imposed by the national Central Banks and by the national authorities of each country where it operates.

UniCredit S.p.A. is organised on a managerial perspective, according to the concept of the Liquidity Reference Bank.

The Liquidity Reference Banks are Legal Entities that act in their responsibility as liquidity hub. They are in charge:

- of the liquidity management and concentration process of liquidity flows of the Legal Entities falling within their perimeter of responsibility;
- of the funding optimisation carried out on the relevant local markets and are responsible to coordinate the access to short-term and medium long term markets of the legal entities belonging to their perimeter;
- finally, of the implementation of the Group's liquidity rules at local level in line with Group's Governance Guideline and Policy and with local regulations.

#### *Roles and responsibilities*

At Group level, three main functions are identified in the management of the liquidity: the Group Risk Management competence line, the "Finance" function, the "Group Planning, Finance, Shareholding And Investor Relations" function, and the "Treasury" function (within the "Markets" Business Unit), each with different roles and responsibilities. In particular, the operational responsibilities reside in the Finance, Planning & Capital Management and the Treasury functions, while the Risk Management function has responsibilities of independent controls and independent reporting compared to the operational functions (in line with the current requirements of Banca d'Italia).

More specifically, Group Treasury acts as main coordinator in the management of infra-group flows, stemming from liquidity deficits or surplus of the various Group's Legal Entities, and applies the appropriate transfer prices to such funds movements. By doing so, Group Treasury ensures a disciplined and efficient access to the markets.

Group Planning, Finance, Shareholding And Investor Relations competence line is responsible for the coordination of the overall financial planning process at Group, Liquidity Reference Banks and relevant LEs level, aiming to efficiently ensure the stability and the sustainability of the financial structure through time, addressing assets and liabilities composition and maturities, in compliance with the limits and triggers set for liquidity and balance sheet metrics. It is also responsible for the execution of the medium long term Group's funding strategy (including securitisation operations), coordinating the access to national and international capital markets for all the Liquidity Reference Banks and relevant LEs, exploiting local market opportunities in order to reduce the costs of funding and diversify the financing sources.

Optimisation of liquidity risks is pursued through the setting of specific limits on the standard banking activity of transforming short, medium and long-term maturities. This is implemented in accordance with legal and regulatory framework in each country and internal rules and policies of the Group companies through management models in place within the individual Liquidity Reference Banks.

Such models are subject to analyses carried out by the local Risk Management or equivalent structure with the same responsibilities in coordination with the UniCredit S.p.A. Risk Management to ensure that they comply with the metrics and the objectives of the Group's liquidity framework. Moreover, the regional rules must conform to national law and regulatory requirements.

#### *Risk measurement and reporting systems*

##### *Techniques for risk measurement*

The different types of liquidity risk managed by the bank are:

- Short Term Liquidity Risk refers to the risk of non-conformity between the amounts and/or the maturities of cash inflows and cash outflows in the short term (below one year).
- Market Liquidity Risk is the risk that the bank may face a considerable (and unfavorable) price change generated by exogenous or endogenous factors and incur losses as a result of the sale of assets deemed to be liquid. In the worst case, the bank might not be able to liquidate such positions;



- Intraday Liquidity Risk appears when a bank is not able "to meet payment and settlement obligations on a timely manner basis under both normal and stressed conditions".
- Structural Liquidity Risk is defined as the inability to raise the necessary funds to maintain an adequate ratio between medium to long-term (over one year) assets and liabilities at reasonable pricing level, in a stable and sustainable way, without affecting the daily operations or the financial condition of the Bank. It could have a potential impact on the cost of funding (own credit and market funding spreads), affecting future income of the institution.
- contingency risk, or stress liquidity is related to future and unexpected obligations (i. e. draw on committed facilities, deposits withdrawal, increase in collateral pledging) could require the bank a greater amount of liquidity compared to what is considered the amount to run the ordinary business.
- Intragroup liquidity risk, that might generate from an excessive exposure or dependency towards/from specific Group counterparts;
- Funding Concentration Risk arises when the bank leverages on such a limited number of funding sources, that they become of such significance that the withdrawal of one or few could trigger liquidity problems.
- Foreign exchange (FX) liquidity risk, generated by the current and projected liquidity mismatch between cash inflows and cash outflows in foreign currencies (FX refinancing risk) or related with the maturity distribution of the assets and liabilities in FX (FX structural mismatch risk).

Liquidity risk, for its particular nature, is addressed by means of gap analyses, liquidity stress testing, and complementary measures (mainly through a set of indicators: e.g. loans to deposits gap, liquidity coverage ratio). In particular, gap analyses are performed within two distinct time horizons:

- liquidity imbalance mismatch approach on a daily basis, which controls the short-term liquidity risk arising from the overnight up to a 12 months maturity;
- gap ratios on a monthly basis, which control the medium to long-term risk (structural liquidity) from the 1Y maturity onwards.

#### *UniCredit S.p.A.'s liquidity framework*

UniCredit S.p.A.'s liquidity framework is based upon the Liquidity Risk Mismatch Model which is characterised by the following fundamental principles:

- Short-term liquidity risk management (operational liquidity), which considers the events that will impact upon UniCredit S.p.A.'s liquidity position from 1 day up to one year. The primary objective is to maintain UniCredit S.p.A.'s capacity to fulfill its ordinary and extraordinary payment obligations while minimising the relevant costs.
- Structural liquidity risk management (structural risk), which considers the events that will impact upon UniCredit S.p.A.'s liquidity position over one year. The primary objective is to maintain an adequate ratio between medium/long term liabilities and medium to long-term assets, with a view to avoid pressures on short-term funding sources (both current and future), while in the meantime optimising the cost of funding.
- Stress tests: Liquidity risk is a low probability, high impact event. Therefore stress testing is an excellent tool to reveal potential vulnerabilities in the Balance Sheet. The Bank uses several scenarios ranging from general market crisis to idiosyncratic crisis, and a combination hereof.

Moreover, the liquidity risk is included in the Group's Risk Appetite framework through some specific liquidity indicators. One of these is the Funding Gap (an improved loans-to-deposits gap), which is calculated on a quarterly basis and which measures to what extent the commercial loan portfolio is financed through commercial liabilities.

#### *Short-term liquidity management*

Short-term liquidity management aims at ensuring that UniCredit S.p.A. remains in a position to fulfill its cash payment obligations, whether expected or unexpected, focused on the exposure for the first 12 months.

The standard measures taken for such purposes are the following:

- management of the access to payment systems (operational liquidity management);
- management of cash payments to be made and monitoring of the level of liquidity reserves and the extent of their utilisation (analysis and active management of the maturity ladder).

## Part E - Information on risks and hedging policies

These principles are applicable at Group level and have to be used across the Liquidity Reference Banks.

The Operative Maturity Ladder is composed by the net contractual cash flows (in/outflows) affecting the cash position at Central Banks or “Nostro Account”. Therefore, these flows impact directly the “core liquidity” of the bank, over pre-defined time buckets.

The Operational Maturity Ladder, calculated for all the relevant currencies, is composed of the following building-blocks:

- Primary Gap, which shows the net wholesale refinancing requirements over the various time-buckets of the horizon;
- Counterbalancing Capacity, which shows the amount of unencumbered securities that are accepted as collateral by Central Banks and/or market counterparties. The Counterbalancing Capacity is considered at its “Liquidity Value” (i.e. the Market Value minus the applicable Haircut);
- Cumulative Gap, which is the sum of the previous components;
- Reservation for Unexpected Flows, which consists of liquidity adjustment to the Operative Maturity Ladder, to consider a buffer that can be used by the Treasury to refinance unexpected outflows impacting the Central Bank position (included in the short-term buckets). The Reservation for Unexpected Flows takes into account the volatility of the funding needs of the commercial asset portfolio, the volatility of the commercial funding sources, including potential concentration effects, the change of liquidity value of the Counterbalancing Capacity due to observed market price changes.

The Operative Maturity Ladder is included in the Group Risk Appetite Framework, with a limit of 0 on the 3 months bucket.

UniCredit S.p.A. adopts also the Cash Horizon as a synthetic indicator of the short-term liquidity risk levels. The Cash Horizon identifies the number of days after which the relevant Entity is no longer able to meet its liquidity obligations as expressed in the Operative Maturity Ladder, after having exhausted the available Counterbalancing Capacity.

### *Structural liquidity management*

UniCredit S.p.A.’s structural liquidity management aims to limit refinancing exposures above one year and thus reducing refinancing needs in the shorter term. The maintenance of an adequate ratio between medium to long-term liabilities and assets aims to avoid pressures on short-term sources, whether present or future.

The standard measures taken for such purposes are the following:

- the spreading of the maturity of funding operations in order to reduce the usage of less stable funding sources, while in the meantime optimising the cost of funding (integrated management of strategic liquidity and tactical liquidity);
- the financing of growth through strategic funding activities, setting the most appropriate maturities (Yearly Funding Plan);
- the balancing of medium/to long-term wholesale funding requirements with the need to minimise costs, by diversifying sources, national markets, currencies of issuance and instruments used (realisation of the Yearly Funding Plan).

The main metric used to measure the medium/long-term position is the Structural Liquidity Ratio.

In general, the Structural Liquidity ratio “1Y Ratio” is calculated as the ratio between liabilities and assets with maturity above one year. All the balance sheet items are mapped according to their contractual maturity, their modelled maturity or according to their specific nature. The internal limit set at 90% means that at least 90% of the assets with a maturity above 1Y have to be financed with liabilities with maturity above 1Y.

The Structural Liquidity Ratio as described above was dismissed at the end of 2016. It was replaced by the Net Stable Funding Ratio (NSFR) as described by the Basel III Regulation.

A key structural metric, aimed at measuring the funding needs originated from the commercial activity of the Bank, is the Funding Gap. It measures the need of funding, the bank has to finance on the wholesale market. The indicator is integrated in the Risk Appetite Framework with the aim of monitoring and managing the level of funding coverage of net loans to customers, coming from funding sources not exclusively obtained through Treasury/Finance activity.

### *Liquidity Stress Test*

Stress testing is a risk management technique used to evaluate the potential effects on an institution’s financial condition of a specific event and/or movement in a set of financial variables. As a forward looking tool, liquidity stress testing diagnostics the institution’s liquidity risk. In particular the results of the Stress tests are used to:

- assess the adequacy of liquidity limits both in quantitative and qualitative terms;
- plan and carry out alternative funding transactions for purposes of off-setting liquidity outflows;
- structure/modify the liquidity profile of UniCredit S.p.A.’s assets;
- provide support to the development of the liquidity contingency plan.

UniCredit S.p.A. has a centralised approach to stress testing, requiring each local Liquidity Reference Bank to run the same scenario set under the coordination of Risk Management. UniCredit S.p.A. runs liquidity scenarios and sensitivity analyses on a regular basis, the latter by assessing the impact on an institution’s financial condition of a move in one particular risk factor, whereas scenario tests tend to consider the impact of simultaneous moves in a number of risk factors, based on an hypothetical, well defined and consistent stress scenario.

### *Liquidity scenarios*

At macro level the Group identifies three different types of potential liquidity crisis:

- market (systemic, global or sector) related crisis: market downturn scenario. This scenario consists of a sudden turmoil in a monetary and capital market, which may be caused by closure (or limited access) to market/settlement system, critical political events, country crisis, credit crunch, etc.;
- specific to the Group, or part of it (idiosyncratic): name crisis; the assumptions could be operational risk, events related to the worsened perception of the Group reputational risk and a downgrade in UniCredit S.p.A. rating or other Group Legal Entities;
- a combination of market and specific crisis: combined scenario.

These scenarios are expected to cause a substantial reduction in the funding coming from rating-sensitive customers, CD/CPs' investors and inter-bank markets. In addition, a possible usage of the undrawn portion of the Committed Lines is considered.

The combined scenario is defined as a general negative development in the market environment and also as a factual or market-hypothesised problem specific to the Group.

During 2017 UniCredit S.p.A. liquidity stress test result on the combined scenario was always positive.

### *Downgrading Impacts*

Among the liquidity outflows that occur in a stress scenario, the bank has monitor on a monthly basis the impact in terms of additionally required collateral that the bank may be required to provide given a downgrade of its own credit rating. All relevant rating agencies are considered.

The testing is carried out on a legal entity level. Specific attention is dedicated to exposures towards Special purpose Vehicles.

### *Regulatory metrics*

UniCredit S.p.A. is also adopting Basel 3 regulatory ratios, such as Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR), as integral part of the overall liquidity management analysis. The necessity to meet the LCR and the NSFR requirement is effectively taken into account both in the Group Funding Plan as well as within the Group Risk Appetite framework.

As far as the LCR is concerned, waiting for the specific disclosure obligations to become effective, in December 2017, the ratio for UniCredit S.p.A. was above 100%.

### *Monitoring and reporting*

In UniCredit S.p.A. the governance and control of liquidity risk is mainly performed through the setting and monitoring of operating restrictions aimed at preventing potential vulnerabilities in the bank's ability to meet its cash flow obligations.

The short-term liquidity limits are monitored and reported on a daily basis. The structural liquidity ratios and their exposure against limits are monitored and reported on a monthly basis. The survival period and the result of the liquidity stress test are reported and monitored on a weekly basis.

UniCredit S.p.A. measures and manages the liquidity risk mainly through different types of restrictions - managerial and regulatory - embedded in risk metrics limits or warning/trigger levels.

In case of limit breach or warning level activation, UniCredit S.p.A. Risk Management function investigates the rationale of the events, triggering the proper escalation and reporting them to the relevant committees.

### **Risk mitigation**

#### *Mitigation factors*

Liquidity risk is considered a relevant risk category for the risk appetite determination of UniCredit S.p.A.

The main liquidity mitigation factors for UniCredit S.p.A. are:

- an accurate plan of short-term and medium to long-term liquidity needs, to be monitored on a monthly basis;
- an effective Contingency Liquidity Policy (CLP) with feasible and up-to-date Contingency Action Plan (CAP) to be executed in case of crisis;
- a liquidity buffer to face unexpected outflows;
- robust and regular up-to-date stress testing performed on a regular basis;
- a system of early warning indicators such to anticipate any potential liquidity crisis and give enough time to UniCredit S.p.A. to restore its safe liquidity profile.

## Part E - Information on risks and hedging policies

### *Funding Plan*

The Funding Plan plays a fundamental role in the overall liquidity management influencing both the short-term and the structural position. The Funding Plan, defined at each level (i.e. Group, Liquidity Reference Bank and Legal Entity level), is developed consistently with a sustainable analysis of uses and sources, both on short-term and structural positions. One of the objectives of accessing the medium and long-term channels is to avoid the pressure on the short-term liquidity position. The Funding Plan is updated at least on a yearly basis and is approved by the Board of Directors. Moreover, it is aligned with the Budgeting process and the Risk Appetite framework.

The Holding Company accesses the market for Group capital instruments. The Holding Company coordinates the market access of the Liquidity Reference Banks and Legal Entities, while the Liquidity Reference Banks coordinate the access of the Legal Entities falling within their perimeter. Each Legal Entity or Liquidity Reference Bank can access the markets for medium and long-term funding, in order to increase its self-sufficiency, exploit market opportunities and functional specialisation, safeguarding the optimisation of cost of funds of UniCredit S.p.A. Group Planning, Finance, Shareholding And Investor Relations is responsible for the elaboration of the Funding Plan. Risk Management is responsible for providing an independent assessment of the Funding Plan.

### *UniCredit S.p.A. Contingency Liquidity Management*

A liquidity crisis is a high impact, low probability event. Therefore, a crisis-mode operating model, that can be activated effectively in case of crisis according to an approved procedure, has been defined. In order to be able to proceed timely, a set of mitigating actions have been pre-defined. Depending on the situation some of these actions can then be approved for execution.

The ability to act in time is essential to minimise the potentially disruptive consequences of a liquidity crisis. The analytics of the stress tests will form a valuable tool to identify the expected consequences and to define up front the most suitable actions in a certain crisis scenario. In combination with the Early Warning Indicators the organisation may be able to reduce the negative liquidity effects in the initial stages of a crisis.

The liquidity crises usually develop quickly and the relevant signals may be either difficult to interpret or may even be lacking; it is, therefore, important to clearly identify players, powers, responsibilities, communication and reporting criteria, in order to increase significantly the probability of overcoming the state of emergency successfully. A liquidity crisis could be classified as systemic (e.g. overall capital and money market disruption) or specific (e.g. specific to the bank), or a combination of both.

UniCredit S.p.A. contingency liquidity management Global Policy has the objective of ensuring effective interventions starting from the very outset (initial hours) of the liquidity crisis, through the definition of specific guidelines on activation, meetings, decisions, actions and communications.

This is achieved through:

- a set of early warning indicators that may help to identify emerging vulnerabilities in UniCredit S.p.A. liquidity risk position;
- activation of extraordinary liquidity governance and operating model linked to indicators included in both the risk appetite and recovery and resolution plan framework;
- a set of available standby mitigating liquidity actions;
- consistent internal and external communication.

A relevant part of the contingency liquidity management is the Contingency Funding Plan. Such a plan consists of a set of potential but concrete management actions to be performed in time of crisis. Such actions are described in terms of sizes, instruments, and timing of execution aimed at improving the bank's liquidity position during time of crisis. The Contingency Funding Plan is developed on the basis of the annual Funding Plan.

### *Early Warning Indicators*

A specific Early Warning Indicators dashboard is in place both at UniCredit S.p.A. and at the relevant legal entities level.

A system of Early Warning Indicators is in place in order to continuously monitor situations of stress, which may, among others, be originated by market, sector or name specific events. That is, they are based either on macroeconomic or market indicators that also reflect the monetary policy stance of the Central Banks variables, or on specific internal metrics. The system of Early Warning Indicators helps to identify emerging vulnerabilities in UniCredit S.p.A.'s liquidity risk position or potential funding needs, triggering a potential response by the senior management.

A "traffic light approach" is adopted for each metric in order to have sufficient time to inform senior management of a deteriorating situation and allow to put in place adequate actions aimed at restoring the business-as-usual state.

## Quantitative information

### 1. Time breakdown by contractual residual maturity of financial assets and liabilities

(€ '000)

ITEMS/MATURITIES	AMOUNTS AS AT 12.31.2017									
	ON DEMAND	1 TO 7 DAYS	7 TO 15 DAYS	15 DAYS TO 1 MONTH	1 TO 3 MONTHS	3 TO 6 MONTHS	6 MONTHS TO 1 YEAR	1 TO 5 YEARS	OVER 5 YEARS	UNSPECIFIED MATURITY
<b>On-balance sheet assets</b>	<b>26,972,378</b>	<b>19,721,518</b>	<b>11,486,991</b>	<b>11,079,245</b>	<b>25,086,975</b>	<b>16,723,733</b>	<b>25,315,085</b>	<b>104,711,231</b>	<b>62,385,693</b>	<b>1,971,931</b>
A.1 Government securities	33,595	52,000	1,583,209	634,891	2,248,729	5,591,957	7,547,223	31,385,948	10,122,060	-
A.2 Other debt securities	6,588	1,138	38,408	55,107	38,630	71,875	261,681	2,314,188	4,328,194	48,694
A.3 Units in investment funds	809,602	-	-	-	-	-	-	-	-	-
A.4 Loans	26,122,593	19,668,380	9,865,374	10,389,247	22,799,616	11,059,901	17,506,181	71,011,095	47,935,439	1,923,237
- Banks	3,997,126	6,467,451	1,743,587	986,396	2,689,886	1,352,753	1,405,336	5,334,026	1,523,431	1,923,237
- Customers	22,125,467	13,200,929	8,121,787	9,402,851	20,109,730	9,707,148	16,100,845	65,677,069	46,412,008	-
<b>On-balance sheet liabilities</b>	<b>171,641,490</b>	<b>18,117,165</b>	<b>10,531,210</b>	<b>10,686,109</b>	<b>11,465,687</b>	<b>8,277,829</b>	<b>9,749,059</b>	<b>66,171,968</b>	<b>28,556,542</b>	<b>500,000</b>
B.1 Deposits and current accounts	160,430,668	833,225	1,264,573	739,091	710,715	650,817	132,370	41,301	111,353	-
- Banks	5,178,197	681,621	1,152,977	494,359	623,900	556,643	89,077	-	-	-
- Customers	155,252,471	151,604	111,596	244,732	86,815	94,174	43,293	41,301	111,353	-
B.2 Debt securities	170,629	248,504	1,997,048	2,859,214	2,780,747	5,492,111	6,831,634	28,449,826	25,046,159	500,000
B.3 Other liabilities	11,040,193	17,035,436	7,269,589	7,087,804	7,974,225	2,134,901	2,785,055	37,680,841	3,399,030	-
<b>Off-balance sheet "transactions"</b>										
C.1 Physically settled financial derivatives										
- Long positions	24,959	7,556,659	5,249,035	12,111,122	29,360,381	17,858,978	7,738,883	11,656,433	6,895,913	-
- Short positions	24,960	10,019,993	5,145,025	11,844,606	29,034,562	16,305,374	7,533,456	10,936,399	6,405,958	-
C.2 Cash settled financial derivatives										
- Long positions	3,752,080	109,724	163,298	420,748	2,886,994	3,532,633	5,304,101	-	-	-
- Short positions	3,789,303	122,006	102,932	261,687	2,965,629	2,797,017	4,120,459	-	-	-
C.3 Deposit to be received										
- Long positions	47,065	3,398,711	-	-	100,761	510,653	685,754	124,306	-	-
- Short positions	-	53,969	843,583	214,343	1,828,691	505,190	1,020,509	400,965	-	-
C.4 Irrevocable commitments to disburse funds										
- Long positions	47	2,010,581	298,457	179,395	1,801,643	819,410	100,908	2,701,367	1,024	-
- Short positions	6,299,277	1,313,553	300,000	-	-	-	-	-	-	-
C.5 Written guarantees	41,476	87	107	33,086	4,355	12,618	21,027	31,420	18,423	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Physically settled credit derivatives										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Cash settled credit derivatives										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

## Part E - Information on risks and hedging policies

## 1.1 Time breakdown by contractual residual maturity of financial assets and liabilities - Currency: euro

(€ '000)

ITEMS/MATURITIES	AMOUNTS AS AT 12.31.2017									
	ON DEMAND	1 TO 7 DAYS	7 TO 15 DAYS	15 DAYS TO 1 MONTH	1 TO 3 MONTHS	3 TO 6 MONTHS	6 MONTHS TO 1 YEAR	1 TO 5 YEARS	OVER 5 YEARS	UNSPECIFIED MATURITY
<b>On-balance sheet assets</b>	<b>25,693,351</b>	<b>19,030,842</b>	<b>11,176,933</b>	<b>10,559,598</b>	<b>23,711,050</b>	<b>15,018,029</b>	<b>24,764,095</b>	<b>101,305,908</b>	<b>60,429,159</b>	<b>1,955,305</b>
A.1 Government securities	31,296	52,000	1,581,967	634,891	2,248,531	5,587,550	7,541,376	30,419,404	10,004,923	-
A.2 Other debt securities	6,583	1,138	38,408	55,107	37,472	70,127	258,774	2,305,838	4,293,057	32,068
A.3 Units in investment funds	752,866	-	-	-	-	-	-	-	-	-
A.4 Loans	24,902,606	18,977,704	9,556,558	9,869,600	21,425,047	9,360,352	16,963,945	68,580,666	46,131,179	1,923,237
- Banks	3,229,969	6,350,055	1,551,184	899,396	2,344,903	689,206	1,137,554	5,122,825	233,500	1,923,237
- Customers	21,672,637	12,627,649	8,005,374	8,970,204	19,080,144	8,671,146	15,826,391	63,457,841	45,897,679	-
<b>On-balance sheet liabilities</b>	<b>167,396,306</b>	<b>17,505,570</b>	<b>9,952,706</b>	<b>10,012,195</b>	<b>11,021,040</b>	<b>6,582,856</b>	<b>9,188,799</b>	<b>64,119,277</b>	<b>24,169,128</b>	<b>500,000</b>
B.1 Deposits and current accounts	156,725,156	300,862	731,877	138,715	371,634	598,099	104,625	36,015	111,353	-
- Banks	3,547,184	299,598	721,991	130,000	338,600	528,000	64,998	-	-	-
- Customers	153,177,972	1,264	9,886	8,715	33,034	70,099	39,627	36,015	111,353	-
B.2 Debt securities	170,300	169,272	1,951,240	2,787,232	2,738,477	5,053,983	6,735,175	27,032,332	20,668,012	500,000
B.3 Other liabilities	10,500,850	17,035,436	7,269,589	7,086,248	7,910,929	930,774	2,348,999	37,050,930	3,389,763	-
<b>Off-balance sheet "transactions"</b>										
C.1 Physically settled financial derivatives										
- Long positions	310	4,606,602	2,191,450	6,091,101	14,121,295	7,895,828	3,667,281	4,548,769	3,291,147	-
- Short positions	24,655	5,619,993	2,950,568	5,561,458	13,852,059	8,958,247	2,036,066	3,183,709	3,143,535	-
C.2 Cash settled financial derivatives										
- Long positions	3,444,824	100,480	160,862	411,646	2,765,343	2,898,751	4,689,542	-	-	-
- Short positions	3,491,298	113,910	57,255	246,594	2,684,934	2,382,165	3,536,495	-	-	-
C.3 Deposit to be received										
- Long positions	-	3,392,184	-	-	100,761	510,653	685,754	124,306	-	-
- Short positions	-	52,097	827,493	185,159	1,824,771	502,664	1,020,509	400,965	-	-
C.4 Irrevocable commitments to disburse funds										
- Long positions	-	1,868,832	256,766	157,080	1,784,249	800,030	100,775	2,680,522	1,024	-
- Short positions	6,299,277	1,050,000	300,000	-	-	-	-	-	-	-
C.5 Written guarantees	41,476	87	107	31,928	2,726	12,054	19,825	31,381	17,985	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Physically settled credit derivatives										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Cash settled credit derivatives										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

1.2 Time breakdown by contractual residual maturity of financial assets and liabilities - Currency: other currencies

(€ '000)

ITEMS/MATURITIES	AMOUNTS AS AT 12.31.2017									
	ON DEMAND	1 TO 7 DAYS	7 TO 15 DAYS	15 DAYS TO 1 MONTH	1 TO 3 MONTHS	3 TO 6 MONTHS	6 MONTHS TO 1 YEAR	1 TO 5 YEARS	OVER 5 YEARS	UNSPECIFIED MATURITY
<b>On-balance sheet assets</b>	<b>1,279,027</b>	<b>690,676</b>	<b>310,058</b>	<b>519,647</b>	<b>1,375,925</b>	<b>1,705,704</b>	<b>550,990</b>	<b>3,405,323</b>	<b>1,956,534</b>	<b>16,626</b>
A.1 Government securities	2,299	-	1,242	-	198	4,407	5,847	966,544	117,137	-
A.2 Other debt securities	5	-	-	-	1,158	1,748	2,907	8,350	35,137	16,626
A.3 Units in investment funds	56,736	-	-	-	-	-	-	-	-	-
A.4 Loans	1,219,987	690,676	308,816	519,647	1,374,569	1,699,549	542,236	2,430,429	1,804,260	-
- Banks	767,157	117,396	192,403	87,000	344,983	663,547	267,782	211,201	1,289,931	-
- Customers	452,830	573,280	116,413	432,647	1,029,586	1,036,002	274,454	2,219,228	514,329	-
<b>On-balance sheet liabilities</b>	<b>4,245,184</b>	<b>611,595</b>	<b>578,504</b>	<b>673,914</b>	<b>444,647</b>	<b>1,694,973</b>	<b>560,260</b>	<b>2,052,691</b>	<b>4,387,414</b>	<b>-</b>
B.1 Deposits and current accounts	3,705,512	532,363	532,696	600,376	339,081	52,718	27,745	5,286	-	-
- Banks	1,631,013	382,023	430,986	364,359	285,300	28,643	24,079	-	-	-
- Customers	2,074,499	150,340	101,710	236,017	53,781	24,075	3,666	5,286	-	-
B.2 Debt securities	329	79,232	45,808	71,982	42,270	438,128	96,459	1,417,494	4,378,147	-
B.3 Other liabilities	539,343	-	-	1,556	63,296	1,204,127	436,056	629,911	9,267	-
<b>Off-balance sheet "transactions"</b>										
C.1 Physically settled financial derivatives										
- Long positions	24,649	2,950,057	3,057,585	6,020,021	15,239,086	9,963,150	4,071,602	7,107,664	3,604,766	-
- Short positions	305	4,400,000	2,194,457	6,283,148	15,182,503	7,347,127	5,497,390	7,752,690	3,262,423	-
C.2 Cash settled financial derivatives										
- Long positions	307,256	9,244	2,436	9,102	121,651	633,882	614,559	-	-	-
- Short positions	298,005	8,096	45,677	15,093	280,695	414,852	583,964	-	-	-
C.3 Deposit to be received										
- Long positions	47,065	6,527	-	-	-	-	-	-	-	-
- Short positions	-	1,872	16,090	29,184	3,920	2,526	-	-	-	-
C.4 Irrevocable commitments to disburse funds										
- Long positions	47	141,749	41,691	22,315	17,394	19,380	133	20,845	-	-
- Short positions	-	263,553	-	-	-	-	-	-	-	-
C.5 Written guarantees	-	-	-	1,158	1,629	564	1,202	39	438	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Physically settled credit derivatives										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Cash settled credit derivatives										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

## Part E - Information on risks and hedging policies

### Section 4 - Operational risks

#### Qualitative information

##### **A. General aspects, operational processes and methods for measuring operational risk**

###### *Operational risk*

Operational risk is the risk of loss due to errors, infringements, interruptions, damages caused by internal processes or personnel or systems or caused by external events. This definition includes legal and compliance risks, but excludes strategic and reputational risk.

For example, losses arising from the following can be defined as operational: internal or external fraud, employment practices and workplace safety, client claims, products distribution, fines and penalties due to regulation breaches, damage to the company's physical assets, business disruption and system failures, process management.

###### *Group operational risk framework*

UniCredit group sets the operational risk management framework as a combination of policies and procedures for controlling, measuring and mitigating the operational risk of the Group and controlled entities.

The operational risk policies, applying to all Group entities, are common principles defining the roles of the company bodies, the operational risk management function as well as the relationship with other functions involved in operational risk monitoring and management.

The Parent Company coordinates the Group entities according to the internal regulation for operational risk control and management. Specific risk committees (Risk Committee, Operational & Reputational Risk Committee) are set up to monitor risk exposure, mitigating actions and measurement and control methods.

The methodology for data classification and completeness verification, scenario analysis, risk indicators, reporting and capital at risk measurement is set by the Group Operational & Reputational Risks department of the Holding company.

Starting from October 2016, the Unit Operational, Reputational Risk & Fraud Management Italy, previously reporting to the Risk Management Italy department, CRO Italy, has been relocated within the Group Operational & Reputational Risks Department, GRM, changing its name in Operational & Reputational Risks Management.

The operational and reputational risks management and control of UniCredit S.p.A. is set by the Unit "Operational & Reputational Risks Management.

The compliance of the Group Operational risk control and measurement system with external regulations and Group standards is assessed through an internal validation process under the responsibility of the Group Internal Validation department of the Holding company and independent from the Group Operational & Reputational Risks Department.

In March 2008, UniCredit group received authorisation to use the AMA model (Advanced Measurement Approach) for calculating operational risk capital. In July 2014 Supervisors have authorised UniCredit group to implement the proposed qualitative and quantitative changes to the AMA model, both at consolidated and individual level, starting from 30 June 2014.

###### *Organisational structure*

Senior Management is responsible for approving all aspects relating to the Group operational risk framework and verifying the adequacy of the measurement and control system and is regularly updated on changes to the risk profile and operational risk exposure, with support from the appropriate risk committees if required.

The Group Operational & Reputational Risk Committee, chaired by the Group Chief Risk Manager, is made up of permanent and guest members. The list of participants of the Committee has been updated in 2014.

The mission of the Group Operational & Reputational Risk Committee relative to operational risk, is to define proposals and opinions for the Group Risk Committee, for:

- the Group risk appetite including capitalisation targets and capital allocation criteria for Group operational risks;
- initial approval and fundamental modifications of risk control and measurement systems and applications for operational risk, including possible action plans, processes, IT and data quality requirements, supported by the related internal validations;
- overall strategies for operational risk optimisation, "Governance Guidelines" and general "Policies" for the management of Group operational risk;
- action plans to address possible critical findings related to risk control and measurement system resulting from "Group Internal Validation" and Internal Audit activities, with regard to internal control system and risk measurement;
- status update of relevant Basel II project activities and processes on operational risk topics;
- ICAAP topics for operational risks;
- yearly Regulatory Internal Validation Report on operational risk;
- advice on matter of operational risk, upon request of the Holding Company functions/Bodies and Legal Entities.



The Group Operational & Reputational Risk Committee, relative to operational risk, meets with approval functions instead for the following topics:

- special operational and reputational risk “Policies”;
- corrective actions for balancing the Group operational risk positions, including the planned mitigation actions, within the Risk Appetite Framework approved by the competent Bodies;
- Group insurance strategies, including renewals, limits and franchises;
- initial approval and fundamental modifications of the methodologies for the measurement and control of operational risk, supported by the related internal validations.

The Group Operational & Reputational Risks Department reports to Group Risk Management (Group CRO) and supervises and manages the overall profile of the operational and reputational risks granting the compliance to regulatory requirements. It is responsible for the governance and control of operational and reputational risks (including operational risks bordering on credit risk and market risk and ICT risks) of the Group and for evaluating exposure to operational and reputational risks, guaranteeing their continual and independent monitoring and defining strategies to mitigate such risks and contain related losses for UniCredit S.p.A perimeter. The department is also responsible for the definition of operational risk losses optimisation programme leveraging on specific risk models and methodologies. Furthermore, it ensure that risk control activities on risks assumed in the Foreign Branches of UniCredit S.p.A. are monitored and reported to the Group Chief Risk Officer.

The department is structured in four units:

- Operational and Reputational Risk Oversight Unit, responsible for defining the principles and rules for identification, assessment and control of operational and reputational risk (including operational risks bordering on credit risk and market risk and ICT risks), and monitoring their correct application by the Legal Entities. The Unit is furthermore responsible to guarantee conformity at Group level on operational losses data collection, scenario analysis as well as on risk indicators monitoring;
- Operational & Reputational Risks Management Unit, responsible for supporting the business functions (i.e. UniCredit S.p.A. network and Competence Line, CIB Division) in the identification of the operational and reputational risks performing specific risk assessment activities (e.g. on relevant transactions). The unit is also responsible for defining operational risk losses optimisation programme and for RAF metrics control. The unit is furthermore responsible for the reputational risk management with reference to its area of responsibility (UniCredit S.p.A) and for releasing Reputational Risk Non-Binding Opinion at Group level in accordance with Reputational Risk Group rules;
- Operational, Reputational Risks and Fraud Management in the Credit Framework unit, responsible for the identification and control of operational risks on credit process in order to contribute to inherent losses reduction. The unit is also responsible, with reference to UniCredit S.p.A, for identifying measures necessary to prevent, control and manage residential mortgage and consumer credit fraud;
- Operational and Reputational Risks Advanced Analytics and Strategies, responsible for defining risk capital measurement approaches, calculating operational risk capital and the corresponding economic capital, as well as conducting quantitative analysis of the Group’s exposure to operational risk also based on operational risks specific models, and providing suitable reporting to the functions concerned. The unit is also responsible for defining operational risk strategies, RAF metrics and transfer/coverage guidelines and instruments.

The Operational & Reputational Risks Management Unit depends on GRM and is responsible for the evaluation of the operational and reputational risks exposure of UniCredit S.p.A., for granting on those risks a continuous and independent presidium, for defining strategies aiming the mitigation and loss control, complying to Global Rules defined by Group Operational & Reputational Risks Department.

In the matter of the operational risks measurement, management and mitigation, the Unit has the following responsibilities:

- defining P&L optimisation programme and identifying achievable loss reduction targets also leveraging on analysis performed by “Operational and Reputational Risk Advanced Analytics and Strategies”;
- carrying out scenario analyses in conjunction with competent functions;
- identifying and monitoring operational risk indicators, with the support of competent functions, and periodically updating them in accordance with the Global Rules;
- assess ICT risks and Relevant Transactions (e.g. relevant outsourcing) and controls implemented to monitor these risks, in accordance with Group methodology;
- assisting in analysing the impact of operational and reputational risk when new and significant financial products are introduced, or major changes in processes take place in the organisational structure and business context;
- identifying in collaboration with local Business main operational risks that could be stressed in deploying Business Strategies and budget ambitions (Business Syndication), in order to suggest the related mitigation actions and monitor their implementation and effectiveness;
- coordinate UniCredit S.p.A. Permanent Workgroup;
- overseeing risk assessment activities for Italian transactions in accordance with Reputational Risks Global Rules (e.g. weapons and nuclear energy sectors);
- overseeing the administrative activities required by L.185/90 (i.e. reporting with SIGMA tool) and the relations with the Ministry of the Economy, in coordination, for issues within its competence area, with Foreign Trade Center/Office (FTC/O) network;
- releasing Reputational Risk Non-Binding Opinion, required by Legal Entities or other UniCredit functions for any initiative/transaction/project;
- supporting the activities of the “Italian Operational & Reputational Risks Committee”/IORRIC, in the role of technical secretariat.

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Finally, with the purpose both to fulfil specific Supervisory request in matter of Governance on operational risk and strengthen the mechanism of operational risk control, in January 2015 the "Italian Operational & Reputational Risk Committee" has been established. It is chaired by the Italian Chief Risk Manager and it is responsible for the monitoring of operational and reputational risk exposure of UniCredit S.p.A. and for the evaluation of relevant events and related mitigation actions implemented. During 2017, the Committee met on a quarterly basis.

### *Internal validation process*

In compliance with regulations, an internal validation process for the operational risk control and measurement system has been set up in order to verify the conformity with regulations and Group standards. This process is responsibility of the Market, Operational & Pillar II Risks Validation unit, within the Group Internal Validation department.

Group methodologies for measuring and allocating the capital at risk are validated at Holding company level by the abovementioned Unit, while the implementation of the operational risk control and management system within the relevant entities is validated by the local ORM functions following the Technical Instructions and policies issued by the Group Internal Validation Department.

The results of the local assessments are annually verified by the Group Internal Validation department which also performs additional analysis on data and documentation. Such evidences are the basis for the release of specific validation reports to the relevant subsidiaries. The local validation report, together with the opinion of the Holding company and the Internal Audit report is submitted to the entities' competent Governing Bodies for approval.

All the validation outcomes on the operational risk control and measurement system, both at Holding Company and controlled entities level, are annually consolidated within the Group Validation report which, along with the annual Internal Audit report, is presented to the UniCredit Board of Directors.

Periodical reporting on validation activities is submitted also to the Group Operational & Reputational Risk Committee.

### *Reporting*

A reporting system has been developed to inform senior management and relevant control bodies on the operational risk exposure and the risk mitigation actions.

In particular, quarterly updates are provided to Italian Operational & Reputational Risk Committee and to Internal Controls and Business Committee on operational losses, capital-at-risk estimates, the main initiatives undertaken to mitigate operational risk in the various business areas, operational losses suffered in the credit linked processes ("cross-credit" losses).

The Operational & Reputational Risks Management and Operational, Reputational Risks and Fraud Management in the Credit Framework units, on a monthly basis, analyse operational risk indicators and, by the mean of a dedicated report, inform senior management upon the results of the above mentioned assessment.

### *Operational risk management*

Operational risk management exploits process reengineering to reduce the risk exposure and insurance policies management, defining proper deductibles and policies limits. Regularly tested business continuity plans assure sound operational risk management in case of interruption of main business services.

Compliant to Group Guidelines on operational risk matters, UniCredit S.p.A. set up the "Permanent Work Group" - PWG composed by relevant functions for the operational risk monitoring (Operational & Reputational Risks Management, Organisation, Security, Compliance and Internal Controls); this PWG regularly meets in order to detect critical areas the company is exposed and, consequently, implements specific mitigating actions.

### *Risk capital measurement and allocation mechanism*

UniCredit developed an internal model for measuring the capital requirements. The system for measuring operational risk is based on internal loss data, external loss data (consortium and public data) scenario loss data and risk indicators.

Capital at risk is calculated per event type class. For each risk class, severity and frequency of loss data are separately estimated to obtain the annual loss distribution through simulation, considering also insurance coverage. The severity distribution is estimated on internal, external and scenario loss data, while the frequency distribution is determined using only the internal data. An adjustment for key operational risk indicators is applied to each risk class. Annual loss distributions of each risk class are aggregated through a copula functions based method. Capital at risk is calculated at a confidence level of 99.9% on the overall loss distribution for regulatory purposes and at a confidence level of 99.97% for economic capital purposes.

Through an allocation mechanism, the individual legal entities' capital requirements are identified, reflecting the entities' risk exposure.

### **B. Legal risks**

UniCredit S.p.A. is named as defendant in several legal proceedings. In particular, as of 31 December 2017, UniCredit S.p.A. was named as a defendant in about 9,300 legal proceedings (excluding labor law cases, tax cases and credit recovery actions in which counterclaims were asserted or objections raised with regard to the credit claims of Group companies). Moreover, from time to time, past and present directors, officers and employees may be involved in civil and/or criminal proceedings, the details of which UniCredit S.p.A. may not lawfully know about or communicate. UniCredit S.p.A. is also required to appropriately fulfill various legal and regulatory requirements in relation to certain aspects of its activity, such as conflicts of interest, ethical issues, anti-money laundering laws, US and international sanctions, client assets, competition law, privacy and information security rules and others. Actual or alleged failure to do so may lead, to additional litigation and investigations and subjects UniCredit

S.p.A. to damages claims, regulatory fines, other penalties and/or reputational damages. In addition, UniCredit S.p.A. and other UniCredit group companies and/or their current and/or former directors are subject or may in the future be subject to investigations by the relevant supervisory or prosecutorial authority in a number of countries in which the Group operates. These include investigations and/or proceedings relating, inter alia, to aspects of systems and controls and instances of actual and potential regulatory infringement by UniCredit S.p.A. and the relevant Group companies and/or its clients. Given the nature of the UniCredit group's business and its reorganisation over time there is a risk that claims or matters that initially involve one Group company may affect or involve other Group entities.

In many cases, there is substantial uncertainty regarding the outcomes of the proceedings and the amount of possible losses. These cases include criminal proceedings, administrative proceedings brought by the relevant supervisory or prosecution authorities and/or claims in which the claimed compensation and/or potential liability of UniCredit S.p.A. is not and cannot be determined, either because of how the claims is presented and/or because of the nature of the actual proceedings. In such cases, until the time when it will be possible to reliably estimate the potential outcome, no provisions are made. However, where it is possible to reliably estimate the amount of possible losses and the loss is considered likely, provisions have been made in the financial statements to the extent UniCredit S.p.A. deemed appropriate based on the circumstances of the case and in compliance with International Accounting Standards (IAS).

To provide for possible liabilities and costs that may result from pending legal proceedings (excluding labor law and tax cases), as of 31 December 2017, UniCredit S.p.A. set aside a provision for risks and charges of €525 million.

As of 31 December 2017, the total amount of claimed damages relating to judicial proceedings other than labor, tax and debt collections proceedings was €7.1 billion. This figure is affected by both the disomogeneous nature of the pending proceedings and the number of involved jurisdictions and their corresponding characteristics in which UniCredit S.p.A. is named as a defendant.

The estimate for reasonably possible liabilities and this provision are based upon information available as of 31 December 2017, however, given the many uncertainties inherent in legal proceedings, they involve significant elements of judgment. In particular, in some cases it is not possible to form a reliable estimate, for instance where proceedings have not yet been commenced or where the extent of legal and factual uncertainties makes any estimate speculative. Therefore any provision may not be sufficient to meet entirely the legal costs and the fines and penalties that may result from pending legal actions.

Set out below is a summary of information, including, if material and/or indicated, the single requests of the plaintiffs, relating to matters involving UniCredit S.p.A. which are not considered groundless or in the ordinary course of the Bank's business.

This section also describes pending proceedings against UniCredit S.p.A. and/or employees (even former employees) that UniCredit S.p.A. considers relevant and which, at present, are not characterised by a defined claim or for which the respective claim cannot be quantified.

Unless expressly mentioned below, labor law and tax claims are excluded from this section and are described elsewhere in the notes of this section. In accordance with IAS37, information that would seriously prejudice the relevant company's position in the dispute may be omitted.

## **Madoff**

### **Background**

UniCredit S.p.A. and several of its direct and indirect subsidiaries have been subject to legal action or investigated in the wake of a Ponzi Scheme perpetrated by Bernard L. Madoff ("Madoff") through his company Bernard L. Madoff Investment Securities LLC ("BLMIS"), which was exposed in December 2008. The background of such litigations and investigations, and the connections between UniCredit S.p.A. and certain of its affiliates with BLMIS, have been more fully disclosed in prior reporting periods.

### **Proceedings in the United States**

#### **Claims by the SIPA Trustee**

In December 2010, the bankruptcy administrator (the "SIPA Trustee") for the liquidation of BLMIS filed, as one of a number of cases, a case before a US Federal Court against ca. 60 defendants, including HSBC, UniCredit S.p.A. and certain of its affiliates (the "HSBC" case).

In the HSBC case, the SIPA Trustee sought to recover a damage compensation for an overall amount of more than 6 billion dollars (to be later determined over the course of the proceedings) against all 60 or so defendants for common law claims (i.e. claims for aiding and abetting the violations by BLMIS) and avoidance claims (also known as claw-back claims). No separate claim for damages was brought against the UniCredit group.

All claims against UniCredit S.p.A. and other companies of the UniCredit group, both relating to common law claims and those related to claw-back actions, were rejected without any possibility of appeal, with the exception of (i) UCB Austria, where on 21 July 2015 the SIPA Trustee has voluntarily waived, with possibility to appeal, the claw-back actions against UCB Austria; and (ii) BAWFM, where, on 22 November 2016, the bankruptcy court issued a decision that required the dismissal of the claw-back claims against BAWFM. On 16 March 2017, the SIPA Trustee filed a notice of appeal from the dismissal of the claims. The appeal remains pending.

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However, if that appeal were successful, the potential claim for damage is non-material and, therefore, there are no specific risk profiles for UniCredit. Certain current or formerly affiliated persons named as defendants in the HSBC case may have rights to indemnification from UniCredit and its affiliated entities. Furthermore, to date and to the knowledge of UniCredit, there are no further actions commenced by parties other than the SIPA Trustee in relation to this matter.

### Claim by SPV OSUS Ltd

UniCredit S.p.A. and certain of its affiliates - UCB Austria, BAWFM and PAI - have been summoned, together with approximately 40 other defendants, in a lawsuit filed before the Supreme Court of the State of New York, County of New York, on 12 December 2014, by SPV OSUS Ltd. The plaintiffs' claims are based on common law, and are only aimed at obtaining monetary compensation, vis-à-vis all defendants in connection with alleged aiding and abetting a breach of fiduciary duty, aiding and abetting a fraud, aiding and abetting a conversion and knowing participation in a breach of trust in connection with the Madoff Ponzi Scheme. The case is brought on behalf of investors in BLMIS, with no specification of the claimed amount. The action filed by SPV OSUS Ltd is still in the initial stage.

### Proceedings outside the United States

Investors in the Primeo and Herald funds brought numerous civil proceedings in Austria. As of 31 December 2017, 44 civil proceedings remain pending with a claimed amount totaling €12.8 million plus interest, of which: 40 are pending before a judge of first instance with no judgment yet, one case in which UCB Austria will appeal a decision to the Court of Appeal and three cases in which it is not yet known whether the claimants will bring an extraordinary appeal before the Supreme Court. The claims in these proceedings pertain to alleged breaches by UCB Austria of certain duties regarding its function as prospectus controller (i.e. regarding the review of prospectuses for accuracy and completeness), or that UCB Austria improperly advised certain investors (directly or indirectly) to invest in funds in Madoff-related investments or a combination of these claims. The Austrian Supreme Court issued 23 final decisions with respect to prospectus liability claims asserted in the legal proceedings. With respect to claims related to the Primeo funds, 13 final Austrian Supreme Court decisions have been issued in favor of UCB Austria. In two cases the Supreme Court did not accept UCB Austria's extraordinary appeal, thus making the decisions of the Court of Appeal in favor of the claimant final and binding. With respect to the Herald fund, the Austrian Supreme Court ruled 5 times with respect to prospectus liability, 2 in favor of UCB Austria and 3 times in favor of the claimants. In a prospectus liability case with Primeo and Herald investments the Austrian Supreme Court ruled in favor of UCB Austria; in two further prospectus liability cases with Primeo and Herald investments the Supreme Court did not accept the claimants' extraordinary appeals, thus rendering binding the decisions of the Court of Appeal in favor of Bank Austria.

While the impact of these decisions on the remaining cases cannot be predicted with certainty, future rulings may be adverse to UCB Austria. In respect of the Austrian civil proceedings pending as against UCB Austria related to Madoff's matter, UCB Austria has made provisions for an amount considered appropriate to the current risk.

UCB Austria has been named as a defendant in criminal proceedings in Austria concerning the Madoff case on allegations that UCB Austria breached provisions of the Austrian Investment Fund Act as prospectus controller of the Primeo fund; other allegations are related to the level of fees and embezzlement. Regarding the violation of duties as Primeo prospectus controller, the investigations were closed in August 2017. Private parties appealed against this decision. The criminal proceedings regarding the other allegations are still at the investigation stage and no official indictments against UCB Austria have been brought by the Austrian prosecutor, therefore, it is not possible to estimate the sanctions (if any) that would be imposed on UCB Austria as well as the potential joint liability of UCB Austria.

### Certain potential consequences

In addition to the foregoing proceedings and investigations stemming from the Madoff case against UniCredit S.p.A., its subsidiaries and some of their respective employees and former employees, subject to any applicable limitations on the time by when proceedings must be brought, additional Madoff-related proceedings may be filed in the future in the United States, Austria or elsewhere. Such potential future proceedings could be filed against UniCredit S.p.A., its subsidiaries, their respective employees or former employees or entities with which UniCredit S.p.A. is affiliated or may have investments in. The pending or possible future proceedings may have negative consequences for the UniCredit group.

Save as described above, at the moment, it is not possible to estimate reliably the timing and results of the various proceedings, nor determine the level of liability, if any responsibility exists. Save as described above, in compliance with international accounting standards, no provisions have been made for specific risks associated with Madoff related claims and charges.

### Proceedings arising out of the purchase of UCB AG by UniCredit S.p.A. and the related Group reorganisation

#### Squeeze-out of UCB AG minority shareholders (Appraisal Proceeding)

In 2008, approximately 300 former minority shareholders of UCB AG filed a request before the District Court of Munich I to have a review of the price paid to them by UniCredit S.p.A., equal to €38.26 per share, in the context of the squeeze out of minority shareholders (Appraisal Proceeding). The dispute mainly concerns the valuation of UCB AG, which is the basis for the calculation of the price to be paid to the former minority shareholders. At present the proceeding is pending in the first instance. The District Court of Munich has appointed experts for the valuation of UCB AG at the time of the squeeze-out, who have submitted their opinion in November 2017.

The experts have confirmed that the valuation of UCB AG for the purposes of the squeeze-out cash compensation was by and large adequate. The court-appointed experts have, however, identified certain value effects which, in the opinion of the experts, could lead to a value increase of UCB AG's former subsidiaries Bank Austria and certain CEE financial institutions. Against this background, the experts question the appropriateness of the purchase prices paid before the squeeze-out by UniCredit to UCB AG for UCB Austria and for the said CEE financial institutions. The opinion of the experts does not bind the courts. UniCredit S.p.A. continues to believe that it has fully complied with applicable law and that the amount paid to the minority shareholders was adequate. UniCredit will vigorously defend this position in the ongoing proceedings. All parties will have an opportunity to comment on the expert opinion, and the court is likely to hold an oral hearing thereafter. It will then be upon the court of first instance to decide on the request of the minority shareholders based on the expert opinion and the legal issues that are relevant and material to the decision of the court. The decision of first instance will be subject to appeal. Thus, at this stage, it is not possible to estimate the duration of the proceeding, which might also last for a number of years and could result in UniCredit S.p.A. having to pay additional cash compensation to the former shareholders. No estimate on the amount in dispute can be made at the current stage of the proceeding.

#### **Squeeze-out of UCB Austria's minority shareholders (Appraisal Proceeding)**

In 2008, approximately 70 former minority shareholders in UCB Austria commenced proceedings before the Commercial Court of Vienna claiming that the squeeze-out price paid to them, equal to €129.4 per share, was inadequate, and asking the court to review the adequacy of the amount paid (Appraisal Proceeding).

The Commercial Court of Vienna referred the case to a panel, called the "Gremium", to investigate the facts of the case in order to review the adequacy of the cash compensation. UniCredit S.p.A., considering the nature of the valuation methods used, believes that the amount paid to the minority shareholders was adequate. In December 2011, the expert appointed by the Gremium rendered its expert opinion on the adequacy of the cash compensation already paid. In May 2013, a supplement opinion was prepared. The results of such opinions are, in general, positive for UniCredit S.p.A. Due to several formal issues, the proceeding before the Gremium is still not finalised. The last oral hearing before the Gremium was held on 22 January 2018. If no settlement is reached, the Gremium will refer the case back to the Commercial Court of Vienna, which will have to decide on the price evaluation as well as on the legal issues. At present the proceeding is pending in the first instance. Currently, it is not possible to evaluate the amount under dispute and the possible risk connected with the above described Appraisal Proceeding.

#### **Financial sanctions matters**

In the past years, violations of US sanctions and certain US dollar payment practices have resulted in certain financial institutions entering into settlements and paying substantial fines and penalties to various US authorities, including the U.S. Treasury Department's Office of Foreign Assets Control ("OFAC"), the U.S. Department of Justice ("DOJ"), the District Attorney for New York County ("NYDA"), the U.S. Federal Reserve ("Fed") and the New York Department of Financial Services ("DFS"). More specifically, in March 2011, UCB AG received a subpoena from the NYDA relating to historical transactions involving certain Iranian entities designated by OFAC and their affiliates. In June 2012, the DOJ opened an investigation of OFAC-related compliance by UCB AG and its subsidiaries more generally.

In this context, UCB AG is conducting a voluntary investigation of its U.S. dollar payments practices and its historical compliance with applicable U.S. financial sanctions, in the course of which certain historical non-transparent practices have been identified. In addition, UCB Austria has independently initiated a voluntary investigation of its historical compliance with applicable U.S. financial sanctions and has similarly identified certain historical non-transparent practices. UniCredit S.p.A. is also in the process of conducting a voluntary review of its historical compliance with applicable U.S. financial sanctions. The scope, duration and outcome of any such review or investigation will depend on facts and circumstances specific to each individual case. Each of these entities is cooperating with the relevant U.S. authorities and remediation activities relating to policies and procedures have commenced and are ongoing. Each Group entity subject to investigations is updating its regulators as appropriate.

It is also possible that investigations into historical compliance practices may be extended to other companies within the Group or that new investigations or proceedings may be commenced against UniCredit S.p.A. and/or the Group. These investigations and/or proceedings into certain Group companies could result in UniCredit S.p.A. and/or the Group being required to pay material fines and/or being the subject of criminal or civil penalties (which at present cannot be quantified). UniCredit S.p.A. and the Group companies have not yet entered into any agreement with the various U.S. authorities and therefore it is not possible to determine the form, extent or the timing of any resolution with any relevant authorities, including what final costs, remediation, payments or other legal liability that may occur in connection therewith. While the timing of any agreement with the various U.S. authorities is currently not determinable, it is possible that the investigations into one or all of the Group entities could be completed by the end of the year. Recent violations of U.S. sanctions and certain U.S. dollar payment practices by other European financial institutions have resulted in those institutions entering into settlements and paying material fines and penalties to various U.S. authorities. At present, UniCredit S.p.A. and the Group companies have no reliable basis on which to compare the ongoing investigations relating to the Group companies to any settlements involving other European institutions, however, it is not possible to assure that any settlement, if any, will not be material.

The investigation costs, remediation required and/or payment or other legal liability incurred in connection with the proceedings could lead to liquidity outflows and could potentially negatively affect our net assets and net results and those of one or more of our subsidiaries. Such an adverse outcome to one or more of the Group entities subject to investigation could have a material adverse effect, also on a reputational basis, on the business, results of operations or financial condition of the Group, as well as on the ability of the Group to meet the relevant capital requirements.

## Part E - Information on risks and hedging policies

### Proceeding relating to certain forms of banking operations

UniCredit S.p.A. is named as a defendant in several proceedings in matters connected to its operations with clients, which are not specific to the UniCredit group, rather affect the financial sector in general.

In this regard, as of 31 December 2017 (i) proceedings against UniCredit S.p.A. pertaining to compound interest, typical of the Italian market, had a total claimed amount of €1.105 million, mediations included; (ii) proceedings pertaining to derivative products had a total claimed amount against UniCredit was €829 million, mediations included.

The proceedings pertaining to compound interest mainly involve damages requests from clients arising from the alleged unlawfulness of the calculation methods of the amount of interest payable in connection with certain banking contracts. Starting from the first years of 2000, there has been a progressive increase in claims brought by the account holders due to the unwinding of the interest payable arisen from the quarterly compound interest. In 2017, the number of claims for refunds/compensation for compound interest decreased slightly compared to 2016. At present, UniCredit S.p.A. has made provisions that it deems appropriate for the risks associated with these claims.

With regard to the litigation connected to derivative products, several financial institutions, including UniCredit group companies, entered into a number of derivative contracts, both with institutional and non-institutional investors. In Germany and in Italy there are a number of pending proceedings against certain Group companies that relate to derivative contracts concluded by both institutional and non-institutional investors. The filing of such litigations affects the financial sector generally and is not specific to UniCredit S.p.A. and its Group companies. At present, it is not possible to assess the full impact of these legal challenges on the Group.

### Vanderbilt related litigations

#### Claims brought or threatened by or on behalf of the State of New Mexico or any of its agencies or funds.

In August 2006, the New Mexico Educational Retirement Board ("ERB") and the New Mexico State Investment Council ("SIC"), both US state funds, invested \$90 million in Vanderbilt Financial, LLC ("VF"), a vehicle sponsored by Vanderbilt Capital Advisors, LLC ("VCA"). VCA is a subsidiary of Pioneer Investment Management USA Inc., at the time an indirect subsidiary of UniCredit S.p.A. The purpose of VF was to invest in the equity tranche of various collateralised debt obligations ("CDOs") managed primarily by VCA. The equity investments in VF, including those made by the ERB and SIC, became worthless. VF was later liquidated.

Beginning in 2009, several lawsuits were threatened or filed (some of which were later dismissed) on behalf of the State of New Mexico relating to the dealings between VCA and the State of New Mexico. These lawsuits include proceedings launched by a former employee of the State of New Mexico who claimed the right, pursuant to the law of the State of New Mexico, to act as a representative of the State for the losses suffered by the State of New Mexico with regard to investments managed by VCA. In these proceedings, in addition to VCA, Pioneer Investment Management USA Inc., PGAM and UniCredit S.p.A. were also named as defendants, by virtue of their respective corporate affiliation with VCA, as described in the previous paragraph. In addition, two class actions were launched with regard to VCA on behalf of the public pension fund managed by ERB and the State of New Mexico threatened to launch a case against VCA if its claim was not satisfied. These suits threatened or instigated relate to losses suffered by the ERB and/or SIC on their VF investments, with additional claims threatened in relation to further losses suffered by SIC on its earlier investments in other VCA-managed CDOs. The lawsuits threatened or instigated allege fraud and kickback practices. Damages claimed in the lawsuits filed by or on behalf of the State of New Mexico are computed based on multiples of the original investment, up to a total of \$365 million. In 2012, VCA reached an agreement with the ERB, SIC and State of New Mexico to settle for the sum of \$24.25 million all claims brought or threatened by or on behalf of the State of New Mexico or any of its agencies or funds. The settlement amount was deposited into escrow at the beginning of 2013. The settlement is contingent on the Court's approval, but that process was temporarily delayed, and the original litigation was stayed, pending the determination by the New Mexico Supreme Court of a legal matter in a lawsuit brought against a different set of defendants in other proceedings. The New Mexico Supreme Court issued its ruling on the awaited legal matter in June 2015 and in December 2015 VCA, the ERB, SIC, and the State of New Mexico renewed their request for Court approval of the settlement. The Court held a hearing on the matter in April 2016 and in June 2017 approved the settlement and directed that the claims against VCA be dismissed. A judgment to that effect was entered in September 2017 and a motion by the former State employee seeking to set aside that judgment was denied by the Court in October 2017. Appeals from the judgment and the subsequent order were taken in October and November 2017 and the settlement cannot be effectuated while the appeal remains pending. If the judgment is upheld on appeal, the escrowed amount will be paid over to the State of New Mexico and VCA, Pioneer Investment Management USA Inc., PGAM and UniCredit will all be released from all claims that were or could have been brought by or on behalf of the State or any of its agencies or funds.

### Divania S.r.l.

In the first half of 2007, Divania S.r.l. (now in bankruptcy) ("Divania") filed a suit in the Court of Bari against UniCredit Banca d'Impresa S.p.A. (then UniCredit Corporate Banking S.p.A. and now "UniCredit S.p.A.") alleging violations of law and regulation (relating, inter alia, to financial products) in relation to certain rate and currency derivative transactions created between January 2000 and May 2005 first by Credito Italiano S.p.A. and subsequently by UniCredit Banca d'Impresa S.p.A. (now "UniCredit S.p.A."). The plaintiff requests that the contracts be declared non-existent, or failing that, null and void or to be cancelled or terminated, and that UniCredit Banca d'Impresa S.p.A. pay the plaintiff a total of €276.6 million as well as legal fees and interest. It also seeks the nullification of a settlement that the parties reached in 2005 under which Divania had agreed to waive any claims in respect of the transactions.

UniCredit S.p.A. rejects Divania demands. Without prejudice to its rejection of liability, UniCredit S.p.A. maintains that the amount claimed has been calculated by aggregating all the debits made (for an amount much larger than the actual amount), without taking into account the credits received that significantly reduce the plaintiff's demands. In 2010, the Court-appointed expert witness submitted a report that largely confirms the Bank's position stating that there was a loss on derivatives amounting to about €6,4 million (which would increase to €10,884 million should the out-of-court settlement, challenged by the plaintiff, be judged unlawful and thus null and void).

The expert opinion states that interest should be added in an amount between €4,137 million (contractual rate) and €868,000 (legal rate). On 29 September 2014, the judges reserved their decision. A new expert report was then ordered, which essentially confirmed the conclusions of the previous expert report. At the hearing held on 6 June 2016 the judges reserved again their decision. On 16 January 2017, the Court issued a decision declaring not to be competent to decide on part of the plaintiff's claims and ordered UniCredit S.p.A. to pay, in favor of Divania's bankruptcy Receiver an overall amount of approximately €7.6 million plus legal interests and part of the expenses. The decision has been appealed. At the first hearing of 29 November 2017, the proceedings were adjourned to 11 October 2019 for the filing of the parties' conclusions.

Two additional lawsuits have also been filed by Divania., (i) one for €68.9 million (which was subsequently increased up to €80.5 million pursuant to Article 183 of the Code of Civil Procedure); and (ii) a second for €1.6 million.

As for the first case, in May 2016 the Court ordered UniCredit S.p.A. to pay approximately €12.6 million plus costs. UniCredit S.p.A. appealed against the decision and at the first hearing the case was adjourned to 22 June 2018 for the filing of detailed conclusions.

In respect of the second case, on 26 November 2015, the Court of Bari rejected the original claim of Divania. The judgment has res judicata effect. UniCredit S.p.A. has made a provision for an amount it deems appropriate to cover the risk of the lawsuit.

### **I Viaggi del Ventaglio Group (IVV)**

In 2011 foreign companies IVV DE MEXICO S.A., TONLE S.A. and the bankruptcy trustee IVV INTERNATIONAL S.A. filed a lawsuit in the Court of Milan for approximately €68 million. In 2014, the bankruptcy trustees of IVV Holding S.r.l. and IVV S.p.A. filed two additional lawsuits in the Court of Milan for €48 million and €170 million, respectively.

The three lawsuits are related. The first and third relate to allegedly unlawful conduct in relation to loans. The second relates to disputed derivative transactions. UniCredit S.p.A.'s view is that the claims appear to be groundless based on its preliminary analysis. In particular: (i) as far as the first lawsuit is concerned (a claim amounting to approximately €68 million), UniCredit S.p.A. won in first instance. Respectively, in July 2016 and in September 2016 the plaintiffs filed an appeal against the decision and the next hearing for the filing of the parties' conclusions is scheduled for 16 January 2019; (ii) as far as the second lawsuit is concerned (a claim amounting to approximately €48 million), relating mainly to disputed derivative transactions, in 2015, all the evidentiary requests, including the appointment of an expert, have been rejected and a decision is awaited; and (iii) lastly, with regard to the third lawsuit (a claim amounting to approximately €170 million), it is currently at the evidentiary stage and the requests made by the judge to the court-appointed expert do not seem related to UniCredit's position. The next hearing for the examination of the court-appointed expert's opinion is set for 18 April 2018.

### **Lawsuit brought by "Paolo Bolici"**

In May 2014, the company wholly owned by Paolo Bolici sued UniCredit S.p.A. in the Court of Rome seeking the return of approximately €12 million for compound interest (including alleged usury component) and €400 million for damages. The company then went bankrupt. The Court of Rome issued the decision on 16 May 2017 rejecting all the claims and ordering the bankruptcy procedure to reimburse UniCredit with the legal costs. UniCredit decided not to make provisions. On 17 June 2017 the bankruptcy procedure appealed the decision. The first hearing is scheduled on 13 February 2018.

### **Mazza Group**

The civil lawsuit originates from a criminal proceeding before the Court of Rome for illicit lending transactions of disloyal employees of UniCredit S.p.A. in favor of certain clients for approximately €84 million. These unlawful credit transactions involve: (i) unlawful supply of funding, (ii) early use of unavailable large sums, (iii) irregular opening of accounts which the employees, in increasingly important roles, facilitated in violation of the regulations and procedures of Banca di Roma S.p.A. (later "UniCredit Banca di Roma S.p.A." and afterwards merged by incorporation into UniCredit S.p.A.).

In May 2013, certain criminal proceedings - related to act and offences representatives of a group of companies (the "Mazza Group") committed in 2005 with the collaboration of disloyal UniCredit's employees - came to an end with an exculpatory ruling (no case to answer). The Public Prosecutor and UniCredit appealed this decision. The first hearing of 9 January 2018 was adjourned to 6 March 2018.

## Part E - Information on risks and hedging policies

Currently two lawsuits are pending for compensation claims against UniCredit S.p.A.:

- the first filed in June 2014 by the Mazza notary in the Court of Rome, demanding from UniCredit S.p.A. compensation for damage allegedly suffered following the criminal complaint brought by the former Banca di Roma S.p.A. The plaintiff makes use of the exculpatory ruling in the criminal proceedings to claim a traumatic experience with repercussions on their health, marriage, social and professional life, with financial, moral, existential and personal injury damages of approximately €15 million. The proceeding is at the evidence collection stage; and
- the second filed in March 2016 by Como S.r.l. and Camillo Colella in the Court of Rome, demanding damages from UniCredit in the amount of approximately 379 million. Similarly to the Mazza notary, the plaintiffs complain that the initiatives of the former Banca di Roma S.p.A. in the criminal and civil proceedings, caused financial, moral, existential and personal injury damages to Camillo Colella, as well as damages for the loss of important commercial opportunities, as well as image, reputational and commercial damage to Como S.r.l. The proceeding is in its conclusive phase.

In UniCredit S.p.A.'s view, these lawsuits currently appear to be unfounded. UniCredit S.p.A. has made a provision it deems consistent to cover the risk resulting from unlawful credit transactions, which is essentially equal to the residual credit of UniCredit S.p.A.

### Di Mario Group

Seven among the eight original lawsuits, concerning ordinary/insolvency claw-back claims for a total amount of €157.1 million, were settled in November 2017.

At the present stage, two lawsuits are thus pending: one was brought by a former majority shareholder claiming €77.7 million (a decision is awaited); and a more recent lawsuit brought by the Bankruptcy Trustee of the former shareholder claiming damages for €8.9 million. At present, the risk deriving from both lawsuits is considered remote.

### So.De.Co. - Nuova Compagnia di Partecipazioni S.p.A.

So.De.Co. S.r.l. (**So.De.Co.**), following to a restructuring transaction by which it acquired the "oil" business from the parent company Nuova Compagnia di Partecipazione S.p.A. (**NCP**), was sold to Ludoil Energy Srl in November 2014.

In March 2016, So.De.Co., then controlled by Ludoil, summoned before the Court of Rome its former directors, NCP, UniCredit (in its capacity as holding company of NCP) and the external auditors (PricewaterhouseCoopers S.p.A. and Deloitte & Touche S.p.A.) claiming damages of approximately €94 million against the defendants, on a several and joint liability basis allegedly deriving from the failure to quantify, since at least 2010, the statutory capital loss, from the insufficient provisions for charges and risks related to environmental issues, and from the unreasonably high price paid for the acquisition of the "oil" business units and subsidiaries from NCP in the context of the group reorganisation of the "oil" business.

UniCredit has been sued by deducing the unfounded nature of the claim and the absence of the damage complained of. On 9 May 2017, the judge rejected all plaintiffs' requests for evidence collection and scheduled the hearing for filing the conclusions for 6 February 2018.

In November 2017, So.De.Co. served a claim against NCP and former directors on the same matter previously subject to a mediation, which had ended with no agreement between the parties. The first hearing was scheduled for 20 February 2018.

### Criminal proceedings

The UniCredit group and its representatives (including those no longer in office), are involved in various criminal proceedings and/or, as far as UniCredit S.p.A. is aware, are under investigation by the competent authorities who are ascertaining whether there are possible liabilities of UniCredit S.p.A.'s representatives with regard to various cases linked to banking transactions, including, specifically, in Italy, investigations related to checking any liability profiles in relation to the offence pursuant to Art.644 (usury) of the Criminal Code.

At present, these criminal proceedings have not had significant negative impacts on the operating results and capital and financial position of UniCredit S.p.A. and/or the Group, however there is a risk that if UniCredit S.p.A. and/or other UniCredit group companies or their representatives (including those no longer in office) were to be convicted following the confirmed violation of laws prosecutable by criminal law this situation could have an impact on the reputation of UniCredit S.p.A. and/or the UniCredit group.

For the sake of completeness, note that, on 13 October 2016 and 16 May 2017, the Public Prosecutor of the Court of Tempio Pausania informed UniCredit S.p.A. of two notices pursuant to Art.415-bis (notice of the conclusion of the preliminary investigations) pursuant to the Code of Criminal Procedure as the party responsible for the administrative offence set out in Art.24-ter of Legislative Decree 231/2001 as a result of offences contested by the former representatives of the Banca del Mezzogiorno - MedioCredito Centrale S.p.A. ("MCC"), later renamed "Capitalia Merchant S.p.A.", then "UniCredit Merchant S.p.A." and then merged by incorporation into UniCredit S.p.A., as well as Sofipa SGR S.p.A. and Capitalia S.p.A. (then merged by incorporation into UniCredit S.p.A.). The offences being investigated are those pursuant to Articles 5 and 11 of Legislative Decree 74/2000 (offences involving income tax and VAT), Art.416 of the Criminal Code (conspiracy) and Art.318 of the Criminal Code (corruption of a public official).

The main proceedings RGNR 207/15 brings together three other separate ones (RGNR 608/16 - 375/15 and 2658/15) whereby UniCredit was only previously aware of 2658/15.

The offences being investigated with regard to the former representative of Capitalia S.p.A. are those pursuant to Art.110 of the Criminal Code (participation in the crime) and Art.5 and 11 of Legislative Decree 74/2000.



The investigation concerns a complex case involving UniCredit S.p.A. as the successor of MCC, relating to shareholdings owned by the above-mentioned MCC in the group for which Colony Sardegna S.à r.l. is the parent company. The directors of this company are charged with decisions concerning financial transactions which resulted in capital gains on behalf of third-party companies and to the detriment of the company managed, as well as failures to declare IRES income; the charges involving UniCredit S.p.A. refer to the years 2003/2011 (in May 2011 UniCredit Merchant S.p.A. actually sold its shareholding).

### **C. Risks arising from employment law cases**

UniCredit S.p.A. is involved in employment law disputes. In general, provisions have been made for all employment law disputes to cover any potential disbursements and in any event UniCredit S.p.A. does not believe that any liabilities related to the outcome of the pending proceedings could have a significant impact on its economic and/or financial standing.

#### *Lawsuits filed against UniCredit S.p.A. by members of the former Cassa di Risparmio di Roma Fund*

Lawsuits have been brought against UniCredit S.p.A. by members of the former Cassa di Risparmio di Roma Fund. These lawsuits, having been won in earlier proceedings by UniCredit, hang on appeal cases brought before the relevant Courts of Appeal and the Court of Cassation (as applicable) in which the main claim is a request that the funding levels of the former Cassa di Risparmio di Roma Fund be restored and that the individual social security accounts of each member be assessed and quantified. With reference to the main claim, the relief sought is estimated at €384 million. No provisions were made as these actions are considered to be unfounded.

### **D. Risks arising from tax disputes**

The following information pertains to the most relevant litigations born in 2017 and to those already pending at the beginning of the fiscal year, which have been decided or otherwise defined. For the litigations which are not mentioned, reference must be made to the financial statements of previous fiscal years.

#### *Pending cases arising during the period*

During 2017 UniCredit S.p.A. and certain controlled companies have been served some deeds totaling over 26 million. The matters of particular significance include those served with regard to:

- registration tax, plus interest and penalties, for a total amount of €8.7 million, requested with respect to a notice of assessment of €6.3 million and referred to the registration tax allegedly due for the registration of the rulings that had settled a number of opposition proceedings regarding the liability status of the companies of the "Costanzo Group". A claim has been filed with the Tax Court and with the Tax Authorities which have canceled the payment request. Finally, also the litigation in front of the Tax Court has been decided;
- a notice of assessment referred to the company Dicembre 2007 S.p.A., liquidated, of which UniCredit S.p.A. was a shareholder. The notice of assessment has been served on 7 April 2017 and refers to the alleged incorrect application of the participation exemption regime. The total amount requested is equal to €14.6 million, plus interest (€7.7 million for higher IRES and €6.9 million for penalties) and it has been requested to all the former shareholders. UniCredit S.p.A. is liable up to 46.67% of the higher sums requested; therefore, the share referred to UniCredit S.p.A. is equal to €6.9 million. The company has filed a claim with the Tax Court and the litigation is pending;
- a notice of assessment relating to VAT 2012 served to a UniCredit Business Integrated Solutions S.C.p.A., for a total amount of €0.3 million;
- two notices of assessment, relating to IRAP and VAT 2012, served to UniCredit Leasing S.p.A. pursuant to the tax audit carried out in 2016. The total amount requested for the two deeds is equal to €0.4 million.

In June and July 2017 the Revenue Agency, Regional Office of Lombardia has started the following controls:

- with respect to UniCredit Bank Austria A.G. Milan branch it has notified a request of information pursuant to Art.10 of Law No.212/2000, referred to the fiscal years 2013, 2014 and 2015 and relating to intragroup transactions and dividends received;
- with respect to UniCredit Leasing S.p.A., it has notified a request of information pursuant to Art.10 of Law No.212/2000, relating to the purchase by UniCredit Bank Austria A.G. of credits towards UniCredit Leasing Ukraine and the subsequent sale both of the share in UniCredit Leasing Ukraine and of the credits;
- with respect to UniCredit Bank A.G. Milan branch, a general tax audit is being carried out with reference to the fiscal years 2013 and 2014.

All the aforementioned requests of information made by the Tax Authorities have been answered within the due date indicated by the Tax Authorities.

#### *Updates on pending disputes and tax audits*

In the previous year's financial statements, notices of assessment were reported mainly referred to the substitute tax on loans. The company has promptly submitted appeals to the competent Tax Courts and at the same time submitted a request for administrative cancellation to the Tax Authorities. As of 31 December 2017, all the assessments relating to the substitute tax on loans have been canceled either by the Tax Court or by the Tax Authorities.

Moreover, with reference to 2017, the following updates are indicated:

- two litigations regarding UniCredit Leasing S.p.A., relating to IRES and VAT 2005, have been decided in favour of the company by the second degree Tax Court of Emilia Romagna, which stated that no abuse of law had been committed. The aforementioned decisions are definitive since the Tax Authorities did not file, within the legal term, a claim with the Supreme Court. The total amount of the two litigations is equal to €120 million;
- with reference to a litigation referred to a 1984 IRPEG tax credit claimed by Banco di Sicilia, for a total amount of €50 million (including both

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principal and interest), the Supreme Court issued a decision by which it attributed the litigation to the second degree Tax Court for additional factual inquiries;

- with respect to the registration tax allegedly due for the registration of the rulings that had settled a number of opposition proceedings regarding the liability status of the companies of the “Costanzo Group” (total value of all litigations: €27.1 million), in December 2017 the second Degree tax Court of Catania has issued a decision in favour of the bank relating to a notice of assessment of €4.8 million. Currently, the legal term for the filing of a claim in front of the Supreme Court is pending;
- UniCredit Business Integrated Solutions S.C.p.A., to which the Tax Authorities had served a notice of assessment referred to IRES and IRAP for 2011, for a total amount of €10.2 million, filed a request for an out-of-Court settlement. Eventually, the litigation has been settled by means of the payment of €2.5 million;
- the aforementioned company has settled out of Court also the litigation relating to 2012, arising from the tax audit carried out in 2016. In comparison to higher taxes equal to €6.6 million, and estimated penalties for €4.4 million, after the settlement, the higher taxes due are equal to €3.7 million, the penalties amount to €1.1 million, plus interest, for a total amount of €5.3 million;
- with respect UniCredit Bank A.G. Milan branch, the tax Authorities had served a tax audit report referred to withholding tax on income from capital allegedly omitted in 2011. Subsequently, two notices of assessment have been notified for IRES and IRAP purposes, for a total amount of €18,000. Such notices of assessment have been canceled by the Tax Authorities since they have been served beyond the legal term;
- with reference to the litigations relating to IRES and IRAP for the years 2006, 2007 and 2008, served to UniCredit S.p.A. as merging company of UniCredit Private Banking S.p.A., the second degree Tax Court of Piemonte has issued two decisions, partially favourable to the company. The total amount of the litigations is equal to €7.8 million and, after the mentioned decisions, the sums due are equal to €4.4 million. The claims with the Supreme Court are under way;
- certain decisions of the second degree Tax Court of Liguria, favourable to the company, have not been challenged by the Tax Authorities and, therefore, are definitive. The decisions refer to IRES 2005 for the companies UniCredit Private Banking S.p.A. and UniCredit Xelion Banca S.p.A., for a total amount of €0.7 million.

As of 31 December 2016 the total amount of provisions for tax risks amounted to €96 million. As of 31 December 2017, the amount of the provisions increased to €102.7 million (including provisions for legal expenses).

### **E. Carlo Tassara S.p.A. restructuring process**

On 23 December 2013 Carlo Tassara (“Tassara”) and the creditor banks signed the third amendment agreement on the moratorium on debt payments.

The purpose of this transaction is to allow the company to better enhance certain assets under disposal, whose proceeds will be used to pay its financial debts.

The main terms and conditions of the Amendment Agreement include:

- 1) the postponement of the final expiry of the agreements to 31 December 2016;
- 2) the appointment of the 9 members composing the Board of Directors, with 6 independent members in accordance with the new corporate governance;
- 3) the conversion of the creditor banks’ exposures into Strumenti Finanziari Partecipativi (“SFP”) for a total amount of €650 million. The SFP, which can be traded once the restructuring agreement expires, have no maturity date and have a priority over any classes of shares with respect to distribution of net income and reserves, as well as in case of liquidation of Carlo Tassara. The criteria to split the SFP among the banks was calculated taking into account the amount and the distribution of the unsecured debt and, for the difference, the uncovered portion of the secured debt. The value of the listed securities was determined on the basis of the 6-month average share price before the closing of the restructuring agreement;
- 4) the commitment of the creditor banks to subscribing additional SFP on a pro-rata basis if in the course of the plan material losses occur pursuant to Art.2447 of the Italian Civil Code;
- 5) the commitment of the creditor banks to converting into SFP the residual credits that should remain in place after the disposal of all the available-for-sale assets of Carlo Tassara;
- 6) the business continuity of Carlo Tassara will be ensured by enterprises with historical links with the Valcamonica area.

The existing collateral (pledge on Intesa Sanpaolo, Eramet and Cattolica Assicurazioni shares) remained in place after the signing of the above-mentioned agreements. On 27 December 2013, following the fulfillment of the conditions precedent to the effectiveness of the third amendment agreement, the banks subscribed the SFP worth €650 million.

UniCredit subscribed for 63,131,974 SFP with a nominal value of €1.00 each and totaling €63 million, issued by Tassara pursuant to the resolution of the Extraordinary Meeting of 23 December 2013, and agreed to contemporaneously pay up these SFP by voluntarily offsetting a portion of its loans (nominal value) to Tassara totaling €63 million, reducing the Bank’s overall exposure to Tassara.

As a result of the above-mentioned offsetting, part of the Bank’s loans to Tassara (€63 million) was paid off and the Company’s outstanding debts to the Bank decreased, with effect from 27 December 2013, by €63 million.

On 23 December 2013, in compliance with the governance provisions, the members of Carlo Tassara S.p.A.’s new Board of Directors were appointed.

Overall, therefore, the proceeds received during 2014 by Carlo Tassara S.p.A. as a result of collections made (for securities and dividends), amounted to about €853 million.

In 2015 Tassara sold listed securities (pledged and not pledged as collateral) and collected dividends worth approximately €459 million, which include the proceeds from the sale of 25.3% of the shareholding of Alior Bank SA, pursuant to the agreement concluded with PZU subscribed in May 2015. The sale, carried out in three stages, was concluded at the beginning of April 2016.

In 2016 the disposal of the portfolio securities allowed Carlo Tassara S.p.A. to get a revenue of approximately €220 million, of which €190 million realised through the disposal of the Eramet securities held by the subsidiary Carlo Tassara France S.A. to the creditor banks, against a debt compensation of the same amount. On 16 December 2016 when subscribing the disposal agreement, the creditor banks signed a commitment aimed at converting the residual loans in additional SFPs, should certain conditions precedent not be fulfilled.

In light of these agreements and following the realised disposal activities, UniCredit S.p.A. credit exposure at 31 December 2017 amounted approximately €3 million gross (fully written-off), equal to 31 December 2016. It should also be noted that in the third quarter of 2017 UniCredit S.p.A. entirely sold the 1,080,000 Eramet S.A. shares (previously held with an investor's share of 4.07%) worth approximately €61 million. For the purpose of providing complete information, it should be noted that as at 31 December 2017 UniCredit S.p.A. also holds overall No.32,237,751 SFPs issued by Carlo Tassara S.p.A., each with a nominal value of €1.00, recorded for an overall value of €1.00.

#### ***F. Other claims by customers***

Supporting the business structures, the Compliance function oversees the regulatory environment evolution related to banking services and products in areas like transparency, financial and investment services and anti-usury. Compliance, as control function, develops rules, checks processes and procedures and monitors complaints trends. The Compliance function, along with the Legal one, also supports analysis and evaluation stages of adequacy of potential "customer care" actions or other initiatives designed to compose particular situations in which the Bank might be involved in order to define them.

Considering the regulatory complexity and interpretations not always homogeneous, the Bank time-to-time assess the accounting of provisions for risk and charges, aimed at facing costs, deemed probable, in a contest that has increased the litigiousness at banking system level.

The trend in market interest rates resulted in the main benchmark reference for indexed loans and in particular for mortgages due from private customers, the Euribor, being negative. This has originated the issue of how to measure the overall interest rate for the clients, creating a fact pattern not existing so far. In light of such complexity, the underlying contracts with clients were subject to a deep monitoring. In this regard, and in compliance with the regulations in force, the Bank takes the necessary initiatives, also allocating a provision for risks according to the likelihood of disbursement.

## Part E - Information on risks and hedging policies

### Quantitative information

Detailed below is the percentage composition, by type of event, of operational risk sources as defined by the New Basel Capital Accord and acknowledged by the New Regulations for the Prudential Supervision of Banks issued by Banca d'Italia in 2013 (Circular No.285) and in successive updates.

The major categories are as follows:

- internal fraud: losses owing to unauthorised activity, fraud, embezzlement or violation of laws, regulations or business directives that involve at least one internal member of the bank;
- external fraud: losses owing to fraud, embezzlement or violation of laws by subjects external to the bank;
- employment practices and workplace safety: losses arising from actions in breach of employment, health and workplace safety laws or agreements, from personal injury compensation payments or from cases of discrimination or failure to apply equal treatment;
- clients, products and business practices: losses arising from non-fulfillment of professional obligations towards clients or from the nature or characteristics of the products or services provided;
- damage from external events: losses arising from external events, including natural disasters, acts of terrorism and vandalism;
- business disruption and system failures: losses owing to business disruption and system failures or interruptions;
- process management, execution and delivery: losses owing to operational or process management shortfalls, as well as losses arising from transactions with commercial counterparties, sellers and suppliers.

DISTRIBUTION PER RISK EVENT TYPE	PERCENTAGE
Clients, products and business practices	61,54%
Process executions	27,86%
External fraud	8,11%
Internal fraud	1,59%
Employment practices	0%
IT systems	0,11%
Asset damages	0,78%
<b>Total</b>	<b>100.00%</b>

In 2017, the main source of operational risk was "Clients, products and business practices", a category which includes losses arising from the non-fulfillment of professional obligations towards clients or from the nature or characteristics of the products or services provided, as well as any sanctions for violating regulations. The second largest contribution to losses came from errors in process management, execution and delivery due to operational or process management shortfalls.

There were also, in decreasing order, losses stemming from external fraud, internal fraud. The residual risk categories were damage to physical assets from external events and IT systems related problems.





## Part F - Shareholders' Equity

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## Part F - Shareholders' Equity

### Section 1 - Shareholders' Equity

#### A. Qualitative information

UniCredit S.p.A. deems as priority the activities of capital management and capital allocation based on the risks taken, with the aim of expanding the Group's operations in a value creation perspective. These activities are structured in the different phases of the Bank's planning and monitoring process and, in particular, in:

- planning and budgeting processes:
  - proposals of risk appetite and capitalisation objectives;
  - analysis of risks associated with value drivers and allocation of capital to business areas and units;
  - assignment of risk-adjusted performance objectives;
  - analysis of the impact on the Group's value and the creation of value for shareholders;
  - preparation and proposal of the capital plan and dividend policy;
- monitoring processes:
  - analysis of performance achieved at Group and business unit level and preparation of management reports for internal and external use;
  - analysis and monitoring of limits;
  - analysis and performance monitoring of the capital ratios of the Group and single companies.

Group's strategic guidelines are aimed at optimising the composition of its business portfolio. This goal is pursued through a process of capital allocation to each business line in relation to its specific risk profile and ability to generate extra income, measured as EVA, which is the main performance indicator correlated to TSR (Total Shareholder Return).

Therefore, the Group capital and its allocation are of relevant importance in the definition of corporate strategies, as, on one hand, the Group Capital represents the shareholders' investment in the Group, which needs to be adequately remunerated, and, on the other hand, it is a scarce resource subject to the external constraints set by regulators.

The process of capital allocation is based on a "dual track" logic, taking into account both the economic capital, measured through the full evaluation of risks by risk management models, and the regulatory capital, quantified applying internal capitalisation targets to regulatory capital requirements.

The capital management activity, performed by the Capital Management unit within Planning and Capital Management Department, is aimed at defining the target level of capitalisation for the Group and its companies in line with regulatory requirements and the risk appetite.

In the dynamic activity of capital management, the Capital Management unit defines the capital plan and monitors the regulatory capital ratios.

The monitoring activity is focused, on one hand, on capital, according to both accounting and regulatory definition (Common Equity Tier 1, Additional Tier 1, and Tier 2 Capital), and, on the other hand, on the planning and performance of risk-weighted assets (RWA).

The dynamic approach to the capital management activity aims at identifying the most suitable investment and capital instruments (ordinary shares and other capital instruments) for achieving the defined targets. If there is a capital shortfall, the gaps to be filled and capital generation measures are indicated, and their cost and efficiency are measured through the RAPM methodology (Risk Adjusted Performance Management).

The Strategic Plan presentation is available in the Group site, at the following link:

(<https://www.unicreditgroup.eu/content/dam/unicreditgroup-eu/documents/en/investors/Capital-Markets-Day/2017/UniCredit-Capital-Markets-Day-2017-Update-on-Transform-2019.pdf>).



## B. Quantitative information

Further information about Shareholders' Equity of UniCredit S.p.A. are represented in Part B - Section 14 - Shareholders' Equity - Items 130,150,160,170,180,190 and 200.

### B.1 Company Shareholders' Equity: breakdown

(€ '000)

ITEMS/VALUES	AMOUNT AS AT	
	12.31.2017	12.31.2016
<b>1. Share capital</b>	<b>20,880,550</b>	<b>20,846,893</b>
<b>2. Share premium reserve</b>	<b>13,399,799</b>	<b>14,384,918</b>
<b>3. Reserves</b>	<b>7,798,690</b>	<b>5,828,366</b>
- from profits	2,766,246	3,152,799
a) legal	1,517,514	1,517,514
b) statutory	679,464	840,018
c) treasury shares	-	-
d) other	569,268	795,267
- other(*)	5,032,444	2,675,567
<b>4. Equity instruments</b>	<b>4,610,073</b>	<b>2,383,463</b>
<b>5. Treasury shares</b>	<b>(2,440)</b>	<b>(2,440)</b>
<b>6. Revaluation reserves</b>	<b>585,548</b>	<b>716,181</b>
- Available-for sale financial assets	537,118	643,991
- Property, plant and equipment	-	-
- Intangible assets	-	-
- Hedges of foreign investments	-	-
- Cash flow hedges	(32,301)	6,677
- Exchange differences	-	-
- Non-current assets classified held for sale	-	-
- Actuarial gains (losses) on defined benefit plans	(196,289)	(211,507)
- Changes in valuation reserve pertaining to equity method investments	-	-
- Special revaluation laws	277,020	277,020
<b>7. Net profit (loss)</b>	<b>6,235,645</b>	<b>(11,460,133)</b>
<b>Total</b>	<b>53,507,865</b>	<b>32,697,248</b>

**Note:**

(\*) "Reserves - other" include the "Reserve of treasury shares" (2,440 thousand), originally formed with the withdrawal from the "Share premium reserve", as well as a part of the "Legal reserve" (€2,683,391 thousand) also constituted, as resolved by the approval of the Ordinary Shareholders' Meeting of 11 May 2013, 13 May 2014 and of 14 April 2016 with the withdrawal from the "Share premium Reserve".

The Shareholders' Equity as at 31 December 2017, in addition to the capital increases explained in detail in Part B - Section 14 "Shareholders' Equity", also reflected the changes resulting from the Ordinary Shareholders' Meeting resolutions of 12 January 2017 and 20 April 2017, which brought to:

- allocation to Share premium reserve of €12,983,565 thousand from paid capital increase;
- withdrawal from Share premium reserve of €11,460,133 thousand for coverage of the loss for the financial year 2016;
- coverage of negative components of Shareholders equity outstanding at year end 2016 (€3,510,702 thousand) through withdrawal from:
  - i) Reserves from profits (€368,965 thousand), Other reserves (€633,186 thousand) and Share premium reserve (€2,508,551 thousand);
- increase of the Reserve related to the medium-term incentive programme for Group staff" of €60,000 thousand through withdrawal from Statutory reserve.

In addition, during 2017 UniCredit S.p.A. issued Additional Tier 1 instruments for a total amount of €2,226,610 thousand net of transaction costs, are recognised in item "150. Equity instruments" of balance sheet liability and whose characteristics are described in Section 2 - Own funds and banking regulatory ratios.

## Part F - Shareholders' Equity

## B.2 Revaluation reserves for available-for-sale assets: breakdown

(€ '000)

ASSETS/VALUES	AMOUNT AS AT 12.31.2017			AMOUNT AS AT 12.31.2016		
	POSITIVE RESERVE	NEGATIVE RESERVE	TOTAL	POSITIVE RESERVE	NEGATIVE RESERVE	TOTAL
1. Debt securities	492,700	(34,054)	458,646	653,159	(63,882)	589,277
2. Equity securities	83,863	(1,264)	82,599	61,057	-	61,057
3. Units in investment funds	3,329	(7,456)	(4,126)	2,773	(9,116)	(6,343)
4. Loans	-	-	-	-	-	-
<b>Total</b>	<b>579,892</b>	<b>(42,774)</b>	<b>537,118</b>	<b>716,989</b>	<b>(72,998)</b>	<b>643,991</b>

## B.3 Revaluation reserves for available-for-sale assets: annual changes

(€ '000)

ASSETS/VALUES	CHANGES IN 2017				
	DEBT SECURITIES	EQUITY SECURITIES	UNITS IN INVESTMENT FUNDS	LOANS	TOTAL
<b>1. Opening balance</b>	<b>589,277</b>	<b>61,057</b>	<b>(6,343)</b>	<b>-</b>	<b>643,991</b>
<b>2. Positive changes</b>	<b>540,321</b>	<b>37,374</b>	<b>3,843</b>	<b>-</b>	<b>581,538</b>
2.1 Fair value increases	277,933	37,374	3,843	-	319,150
2.2 Reclassification through profit or loss of negative provision	259,710	-	-	-	259,710
- due to impairment	-	-	-	-	-
- following disposal	259,710	-	-	-	259,710
2.3 Other changes	2,678	-	-	-	2,678
<b>3. Negative changes</b>	<b>670,952</b>	<b>15,832</b>	<b>1,626</b>	<b>-</b>	<b>688,410</b>
3.1 Fair value reductions	264,438	6,263	-	-	270,701
3.2 Impairment losses	-	508	1,626	-	2,134
3.3 Reclassification through profit or loss of positive allowances: following disposal	405,089	6,858	-	-	411,947
3.4 Other changes	1,425	2,203	-	-	3,628
<b>4. Closing balance</b>	<b>458,646</b>	<b>82,599</b>	<b>(4,126)</b>	<b>-</b>	<b>537,119</b>

## B.4 Revaluation reserve on defined benefit obligations: annual changes

(€ '000)

	CHANGES IN	
	2017	2016
<b>1. Net opening balance</b>	<b>(211,508)</b>	<b>(222,157)</b>
<b>2. Positive changes</b>	<b>18,200</b>	<b>57,889</b>
2.1. Fair value increase	17,287	-
2.2 Other changes	913	57,889
<b>3. Negative changes</b>	<b>2,981</b>	<b>47,240</b>
3.1 Fair value reductions	2,151	47,240
3.2 Other changes	830	-
<b>4. Closing balance</b>	<b>(196,289)</b>	<b>(211,508)</b>

## Section 2 - Own funds and regulatory ratios

### 2.1 Own Funds

#### **A. Qualitative information**

Starting from 1 January 2014, the calculation of capital requirements keeps into account the regulatory framework known as “Basel 3”, adopted as a result of the EU Regulation No.575/2013 on prudential requirements for credit institutions and investment companies (Capital Requirements Regulation, “CRR”) and in the EU Directive 2013/36 on the access to the activity of credit institutions and the prudential supervision of credit institutions and investment companies (Capital Requirements Directive 4 - “CRD 4”), also according to their adoption by Italian Laws.

Such regulation foresees the following breakdown of Own Funds:

- Tier 1 Capital (T1), made by:
  - Common Equity Tier 1 Capital (CET1) and
  - Additional Tier 1 Capital (AT1);
- Tier 2 Capital (T2);
- the sum of T1 and T2 generates the Total Own Funds (Total Capital).

#### **Transitional Own Funds**

Regarding the amount of transitional adjustments as of 31 December 2017 it is worth mentioning that such amounts, compared to 31 December 2016, also reflect the gradual reduction of the transitional adjustment requested for 2017, mainly:

- 20% for the items to be deducted from CET1 (40% in 2016);
- 20% for unrealised gains on AFS securities (40% in 2016);
- 40% for the actuarial losses calculated according to Article 473 of CRR (60% for 2016).

#### **Profit eligible**

The profit eligible as of 31 December 2017 (€6,236 million, net of tax effect) is recognised in CET1 capital for €5,506 million, i.e. excluding €730 million relating to the dividends calculated at the date (including distributions to social and charity initiatives).

The net profit as of 31 December 2017 is included in CET1 capital following the authorisation by the competent Authority according to article 26(2) of CRR.

#### **Atlante Fund and Italian Recovery Fund (ex Atlante Fund II)**

As at 31 December 2017, the quotes held by UniCredit in the Atlante Fund and Italian Recovery Fund (ex Atlante Fund II), for approximately €190 million, are primarily referred to investments in securitisation notes relating to non-performing loans: the regulatory treatment of the Fund’s quotes recognised in the UniCredit balance sheet is based on the application of the look-through method to the underlying investments, namely the securitisation notes risk weighted 1,250%.

The stakes indirectly held in Banca Popolare di Vicenza and Veneto Banca (formerly classified as non-significant holdings in financial sector entity, pursuant to the EU Regulation 2015/923), were fully impaired in the past periods.

With reference to the residual commitments, for €162 million, the regulatory treatment foresees the application of a Credit Conversion Factor equal to 100% (“full risk” according to Annex I of CRR), for the calculation of the related Risk Weighted Assets.

## Part F - Shareholders' Equity

### **Voluntary Scheme ("Schema Volontario")**

With reference to the Voluntary Scheme (an instrument introduced by the FITD for the resolution of bank crises through support measures in favour of its member banks, where specific conditions laid down by the legislation occur), on 2 August 2017 UniCredit group approved to increase by €18 million (of which €15 million referring to UniCredit S.p.A.) its position toward the Voluntary Scheme, bringing it to €95 million (of which €81 million refers to UniCredit S.p.A.) in addition to previous commitments and already converted into payments completed during 2016 for a total amount of €51 million (of which €44 million referring to UniCredit S.p.A.).

On 29 September 2017, UniCredit group commitment was partially drawn for the recognition of an "Available for sale" equity instrument of €10 million (of which €9 million refers to UniCredit S.p.A.), consistent with the cash outflow; hence the commitment towards the Voluntary Scheme was reduced to €85 million. Since this outflow faced the planned intervention for the capitalisation of target banks (disposal at the "symbolic price" of €1), this equity position was fully impaired.

Regarding the further investments, equal to €85 million as mentioned above (of which €72 million referring to UniCredit S.p.A.), the break-down is reported as follows:

- €53 million (of which €45.2 million referring to UniCredit S.p.A.) relating to investments in equity shares of target banks, fully impaired as at 30 September 2017;
- €32 million (of which €27 million refers to UniCredit S.p.A.) invested in non-performing loans securitisations, impaired for approx. €27 million (of which €22.6 million refers to UniCredit S.p.A.) as of 31 December 2017 (residual exposure for approx. 5 million, of which over €4 million refers to UniCredit S.p.A.).

### **Stake in Banca d'Italia's capital**

With reference to the regulatory treatment of UniCredit's stake in Banca d'Italia, the carrying value as of 31 December 2017, equal to €1,062 million, is risk weighted at 100% (according to the article 133 "Equity exposure" of CRR); the revaluation recognised on P&L as of 31 December 2013 is not filtered out.

### **FINO transaction**

In this regard, please refer to the press releases published on UniCredit group website.

### **Corporate governance amendments**

Regarding the corporate governance amendments proposed by the Board of Directors and approved on 4 December 2017 by both UniCredit S.p.A. Ordinary and Extraordinary Shareholders' Meeting and the Special Meeting of Savings Shareholders (please refer to the press releases published on UniCredit group website for additional details), the share premium reserve was reduced by approximately €117 million as of 31 December 2017 with reference to the elimination of the 5% limit for the exercise of the voting rights and the mandatory conversion of savings shares into ordinary shares, in line with the authorisation requests submitted to the Competent Authority.

## 1. Common Equity Tier 1 Capital - CET1

Common Equity Tier 1 Capital mainly includes the following elements:

- Main Common Equity Tier 1 Capital items, recognised as Common Equity Tier 1 only where they are available to the institution for unrestricted and immediate use to cover risks or losses as soon as these occur: (I) capital instruments, provided the conditions laid down in CRR article 28 or, where applicable, article 29 are met (e.g. ordinary shares); (II) share premium accounts relating to the instruments referred to in point (I); (III) retained earnings; (IV) accumulated other comprehensive income; (V) other reserves;
- Prudential filters of Common Equity Tier 1 Capital: (I) filter relating to increase in its equity under the applicable accounting framework that results from securitised assets; (II) filter relating to the fair value reserves regarding to gains or losses on cash flow hedges of financial instruments that are not valued at fair value; (III) filter relating to gains or losses on liabilities of the institution that are valued at fair value that result from changes in the own credit standing of the institution; (IV) filter relating to all fair value gains and losses arising from the institution's own credit risk relating to derivative liabilities; (V) filter relating to additional value adjustments (prudent valuation);
- Deductions from Common Equity Tier 1 items: (I) intangible assets; (II) deferred tax assets (DTA) that rely on future profitability and do not arise from temporary differences; (III) negative amounts resulting from the calculation of expected loss amounts when compared with credit risk adjustments (shortfall) for those positions evaluated according to IRB methods; (IV) defined benefit pension fund assets on the balance sheet of the institution; (V) direct, indirect and synthetic holdings by an institution of own Common Equity Tier 1 instruments, including own Common Equity Tier 1 instruments that an institution is under an actual or contingent obligation to purchase by virtue of an existing contractual obligation; (VI) exposures deducted from CET1 as an alternative to the application of 1,250% risk weight; (VII) the applicable amount of direct, indirect and synthetic holdings by the institution of Common Equity Tier 1 instruments of financial sector entities where the institution does not have a significant investment in those entities (deducted for the amount exceeding the thresholds foreseen by the regulation); (VIII) deferred tax assets (DTA) that rely on future profitability and arise from temporary differences, and the applicable amount of direct, indirect and synthetic holdings by the institution of the Common Equity Tier 1 instruments of financial sector entities where the institution has a significant investment in those entities (deducted for the amount exceeding the thresholds foreseen by the regulation).

As of 31 December 2017, CET1 includes ordinary shares issued by UniCredit S.p.A. equal to €20,231 million, among the others elements, such amount does not include the shares, in support to Cashes<sup>14</sup> (€609 million), reclassified under AT1.

## 2. Additional Tier 1 Capital - AT1

The main AT 1 elements are the represented by the following items: (I) capital instruments, where the conditions laid down in article 52(1) of CRR are met; (II) the share premium accounts relating to the instruments referred to in point (I); (III) capital instruments for the amount computable in Own Funds according to the transitional provisions foreseen by CRR (grandfathering).

On 15 May 2017, with value date 22 May 2017, UniCredit S.p.A. launched Additional Tier 1 notes, denominated in Euro, for a total of €1.25 billion. The securities are perpetual and can be called by the Issuer after 6 years and thereafter at any interest payment date. Notes pay fixed rate coupons of 6.625% per year. The notes were allocated to institutional investors, based in the main financial European venues (UK, Italy and France, inter alia).

The coupon payment is fully discretionary. The notes have a 5.125% Common Equity Tier 1 (CET1) trigger, if the Group or Issuer CET1 at any time falls below the trigger level, the instrument will be temporarily written down to cure the breach, taking into consideration other instruments with similar write down triggers.

On 13 December 2017, with value date 20 December 2017, UniCredit S.p.A. launched Additional Tier 1 notes, denominated in Euro, for a total of €1 billion with characteristics compliant with the "CRD IV" regulation in place starting from 1 January 2014. The securities are perpetual (with maturity linked to corporate duration of UniCredit S.p.A.) and can be called by the Issuer after 7.5 years and thereafter at any interest payment date. Notes pay fixed rate coupons of 5.375% per annum for the initial 7.5 years, paid on a semi-annual basis; if not redeemed, coupon will be reset every 5 years to the then 5-Years Mid-Swap rate + 49.5basis points. The notes were allocated to institutional investors, based in the main financial European venues (UK, Italy and Switzerland, inter alia).

The coupon payment is fully discretionary. The notes have a 5.125% Common Equity Tier 1 (CET1) trigger - If the Group or Issuer CET1 at any time falls below the trigger level, the instrument will be temporarily written down to cure the breach, taking into consideration other instruments with similar write down triggers.

<sup>14</sup> CASHES are equity-linked instruments, issued for a counter value of €2,983,000 thousand in February 2009 by The Bank of New York (Luxembourg) SA, with a maturity on 15 December 2050 and convertible, under certain conditions, into n. 9.675.641 ordinary shares of UniCredit S.p.A. (reduced from n.967,564,061 after the reverse split occurred in 2011 and 2017) underwritten by Mediobanca in the context of the capital increase approved by the UniCredit Extraordinary Shareholders' Meeting on 14 November 2008. Therefore, since such shares are legitimately issued, they are fully loss absorbing as any other ordinary share.

## Part F - Shareholders' Equity

## Financial instruments included in Additional Tier 1 Capital

SUBJECT TO TRANSITIONAL RULES (GRANDFATHERING)	ISSUER	UNIQUE IDENTIFIER (1)	COMPUTABLE CRR AMOUNT (€/MLN)	NOMINAL AMOUNT IN ORIGINAL CURRENCY (MLN)	CURRENCY	MATURITY DATE	OPTIONAL CALL DATE	FIXED OR FLOATING DIVIDEND / COUPON	COUPON RATE AND ANY RELATED INDEX	CONVERTIBLE OR NON-CONVERTIBLE	WRITE-DOWN FEATURES	POSITION IN SUBORDINATION HIERARCHY IN LIQUIDATION (2)
yes	UNICREDIT SPA	XS0527624059	210	500	EUR	No maturity	07.21.2020	Fixed to Floating	9.375% from issue date to 07.21.2020, equivalent to MS + 6.49%; Euribor 3M + 7.49% from 07.21.2020	Non convertible	yes	Tier 2
no	UNICREDIT SPA	XS1046224884	898	1,250	USD	No maturity	06.03.2024	Fixed	8% p.a. until 06.03.2024; thereafter fixed every 5 years for 5-Year Mid-Swap Rate + 518bps	Non convertible	yes	Tier 2
no	UNICREDIT SPA	XS1107890847	991	1,000	EUR	No maturity	09.10.2021	Fixed	6.75% p.a. until 09.10.2021; thereafter fixed every 5 years for 5-Year Mid-Swap Rate + 610bps	Non convertible	yes	Tier 2
no	UNICREDIT SPA	XS1539597499	495	500	EUR	No maturity	06.03.2022	Fixed	9.25% p.a. until 06.03.2022; thereafter fixed every 5 years for 5-year Mid-Swap Rate + 930bps	Non convertible	yes	Tier 2
no	UNICREDIT SPA	XS1619015719	1,237	1,250	EUR	No maturity	06.03.2023	Fixed	6.625% p.a. until 06.03.2023; thereafter fixed every 5 years for 5-year Mid-Swap Rate + 638.7 bps	Non convertible	yes	Tier 2
no	UNICREDIT SPA	XS1739839998	990	1,000	EUR	No maturity	06.03.2025	Fixed	5.375% p.a. until 06.03.2025; thereafter fixed every 5 years for 5-year Mid-Swap Rate + 492.5 bps	Non convertible	yes	Tier 2

**Notes:**

(1) It should be noted that ISIN Guidelines (paragraph 7) states that "banking instruments or facilities such as bank loans are outside of the scope of the ISO-6166 standard and should not be identified by ISIN codes". Therefore, the present section shows an internal identification code for those instruments classified as "Loans".

(2) The write-up mechanisms described are aligned with the original Final Terms & Conditions; therefore, the classification of instruments is coherent with the regulatory framework in force at the issuance date.

**3. Tier 2 Capital - T2**

The main Tier 2 elements are the represented by the following items: (I) capital instruments and subordinated loans where the conditions laid down in article 63 if CRR are met; (II) the share premium accounts relating to instruments referred to in point (I); (III) possible surplus of credit risk adjustments with reference to expected losses for positions evaluated according to IRB methods; (IV) capital instruments and subordinated loans for the amount computable in Own Funds according to the transitional provisions foreseen by CRR (grandfathering).

In June 2017, UniCredit S.p.A. launched following Tier 2 notes:

- denominated in Euro, for a total of 50 million. The securities have a legal maturity of 15 years and pay a fixed rate coupon of 4.5% per annum, paid on an semi-annual basis. The Notes were distributed to one single institutional investor. Bonds are listed on the Luxembourg Stock Exchange;
- denominated in US Dollars, for a total of 1 billion. The securities have a legal maturity of 15 years and pay fixed rate coupons of 5.861% per annum, paid on an semi-annual basis, for the first 10 year. The instrument has a one-time Issuer's call option exercisable after 10 years subject to regulatory approval; if not called at year 10 the coupon will reset at the prevailing 5 years US mid-swap rate plus the initial spread. The Notes were distributed to different institutional investors' categories, mainly funds (83%) and banks and insurance companies. The demand has mainly come from US/Canada (59%), France (12%) and UK (9%).

As of 31 December 2017, T2 Capital:

- does not include instruments having a contractual amortisation plan in line with regulatory rules stated by article 63 of CRR;
- includes, according to article 484(5) of CRR among grandfathered instruments, the amount of such instruments issued before 31 December 2011 and subject to the grandfathering provisions;
- also includes saving shares for a total amount of €2 million.

## Tier 2 instruments included in Tier 2 Capital

SUBJECT TO TRANSITIONAL RULES (GRANDFATHERING)	ISSUER	UNIQUE IDENTIFIER (1)	COMPUTABLE CRR AMOUNT (€/MLN)	NOMINAL AMOUNT IN ORIGINAL CURRENCY (MLN)	CURRENCY	MATURITY DATE	OPTIONAL CALL DATE	FIXED OR FLOATING DIVIDEND / COUPON	COUPON RATE AND ANY RELATED INDEX	CONVERTIBLE OR NON-CONVERTIBLE	WRITE-DOWN FEATURES	POSITION IN SUBORDINATION HIERARCHY IN LIQUIDATION (2)
no	UNICREDIT SPA	XS0348222802	110	125	EUR	03.03.2023	-	Fixed	6.04% p.a.	Non Convertible	no	Senior
no	UNICREDIT SPA	XS0356063940	1	15	EUR	04.10.2018	-	Floating	Max between 5.535% and 10 y Euro CMS	Non Convertible	no	Senior
no	UNICREDIT SPA	XS0356629369	6	100	EUR	04.24.2018	-	Floating	Max between 5% and 10 y Euro CMS + 0.67%	Non Convertible	no	Senior
no	UNICREDIT SPA	XS0367777884	59	1,000	EUR	06.05.2018	-	Fixed	6.70% p.a.	Non Convertible	yes	Lower Tier 2
no	UNICREDIT SPA	XS0372227982	11	125	EUR	06.25.2018	-	Floating	Euribor 6M + 1.7%	Non Convertible	yes	Lower Tier 2
no	UNICREDIT SPA	XS0503612250	33	50	EUR	04.21.2021	-	Fixed	5% p.a.	Non Convertible	no	Senior
no	UNICREDIT SPA	XS0504566414	43	50	EUR	04.25.2022	-	Fixed	5.05% p.a.	Non Convertible	no	Senior
no	UNICREDIT SPA	XS0503708280	23	50	EUR	04.26.2020	-	Fixed	4.75% p.a.	Non Convertible	no	Senior
yes	UNICREDIT SPA	IT0004605074	153	333	EUR	05.31.2020	-	Fixed	05.31.2011: 3.00%; 05.31.2012: 3.25%; 05.31.2013: 3.50%; 05.31.2014: 3.75%; 05.31.2015: 4.00%; 05.31.2016: 4.40%; 05.31.2017: 4.70%; 05.31.2018: 5.07%; 05.31.2019: 5.40%; 05.31.2020: 6.00%	Non Convertible	no	Senior
no	UNICREDIT SPA	XS0515754587	25	50	EUR	06.14.2020	-	Fixed	5.16% p.a.	Non Convertible	no	Senior
yes	UNICREDIT SPA	IT0004698418	22	464	EUR	03.31.2018	-	Fixed to Floating	5.00% p.a. from 06.30.2011 to 03.31.2013; from 06.30.2013 Euribor 3M + 1% p.a.	Non Convertible	no	Senior
yes	UNICREDIT SPA	IT0004698426	37	759	EUR	03.31.2018	-	Fixed	03.31.2012: 4.10%; 03.31.2013: 4.30%; 03.31.2014: 4.50%; 03.31.2015: 4.70%; 03.31.2016: 4.90%; 03.31.2017: 5.05%; 03.31.2018: 5.10%	Non Convertible	no	Senior
no	UNICREDIT SPA	XS0618847775	483	750	EUR	04.19.2021	-	Fixed	6.125% p.a.	Non Convertible	no	Senior
yes	UNICREDIT SPA	IT0004723927	37	394	EUR	06.30.2018	-	Fixed to Floating	5% p.a. until 06.30.2013; from 09.30.2013 Euribor 3M + 1% p.a.	Non Convertible	no	Senior
yes	UNICREDIT SPA	IT0004740368	2	20	EUR	07.05.2018	-	Floating	Euribor 3M + 2.50% p.a.	Non Convertible	no	Senior
no	UNICREDIT SPA	XS0849517650	1,444	1,500	EUR	10.31.2022	-	Fixed	6.95% p.a.	Non Convertible	no	Senior
yes	UNICREDIT SPA	IT0004747330	19	157	EUR	08.19.2018	-	Fixed	08.19.2012: 4.40%; 08.19.2013: 4.60%; 08.19.2014: 4.80%; 08.19.2015: 5.00%; 08.19.2016: 5.30%; 08.19.2017: 5.65%; 08.19.2018: 6.00%	Non Convertible	no	Senior
yes	UNICREDIT SPA	IT0004748882	1	10	EUR	07.21.2018	-	Floating	Euribor 3M + 2.637% p.a.	Non Convertible	no	Senior

## Part F - Shareholders' Equity

SUBJECT TO TRANSITIONAL RULES (GRANDFATHERING)	ISSUER	UNIQUE IDENTIFIER (1)	COMPUTABLE CRR AMOUNT (€/MLN)	NOMINAL AMOUNT IN ORIGINAL CURRENCY (MLN)	CURRENCY	MATURITY DATE	OPTIONAL CALL DATE	FIXED OR FLOATING DIVIDEND / COUPON	COUPON RATE AND ANY RELATED INDEX	CONVERTIBLE OR NON-CONVERTIBLE	WRITE-DOWN FEATURES	POSITION IN SUBORDINATION HIERARCHY IN LIQUIDATION (2)
yes	UNICREDIT SPA	IT0004764004	67	414	EUR	10.31.2018	-	Fixed	10.31.2012: 5.60%; 10.31.2013: 5.90%; 10.31.2014: 6.10%; 10.31.2015: 6.30%; 10.31.2016: 6.50%; 10.31.2017: 6.80%; 10.31.2018: 7.20%	Non Convertible	no	Senior
yes	UNICREDIT SPA	IT0004780562	108	518	EUR	01.31.2019	-	Fixed	01.31.2013: 6.50%; 01.31.2014: 6.90%; 01.31.2015: 7.30%; 01.31.2016: 7.80%; 01.31.2017: 8.10%; 01.31.2018: 8.30%; 01.31.2019: 8.50%	Non Convertible	no	Senior
no	UNICREDIT SPA	XS0878681419	185	300	SGD	07.30.2023	07.30.2018	Fixed	1-5.5Y 5.5% SOR 5.5-10.5Y SOR + 4.47% p.a.	Non Convertible	no	Senior
no	UNICREDIT SPA	XS0925177130	620	750	USD	05.02.2023	05.02.2018	Fixed to Floating	1-5Y 6.375%, 6-10Y USD MS + 5.51%	Non Convertible	no	Senior
no	UNICREDIT SPA	XS0986063864	996	1,000	EUR	10.28.2025	10.28.2020	Fixed	5.75% p.a. after the call 5Y Swap + 410 bps	Non Convertible	no	Senior
no	UNICREDIT SPA	135_SL0013	0	10	EUR	01.30.2018	-	Fixed	5.74% p.a.	Non Convertible	no	Senior
no	UNICREDIT SPA	135_SL0014	0	10	EUR	01.30.2018	-	Fixed	5.74% p.a.	Non Convertible	no	Senior
no	UNICREDIT SPA	XS1070428732	184	185	EUR	05.21.2024	05.21.2019	Fixed	3.125% from issue date to 05.21.2019; fixed rate equivalent to 5Y MS + 2.50% from 05.21.2019	Non Convertible	no	Senior
no	UNICREDIT SPA	IT0005087116	2,497	2,500	EUR	05.03.2025	05.03.2020	Floating	Euribor 3M + 2.75%	Non Convertible	no	Senior
no	UNICREDIT SPA	XS1426039696	746	750	EUR	01.03.2027	01.03.2022	Fixed	4.375% p.a. from issue date to 01.02.2022 payable annually; 4.316% p.a. + 5 Year Mid-Swap Rate after 01.02.2022	Non Convertible	no	Senior
no	UNICREDIT SPA	XS1632222565	50	50	EUR	06.14.2032	06.14.2027	Fixed to Floating	4.50% p.a. from issue Date to 06.14.2019 payable semiannually; 2.24% p.a. + Euribor 6m after 06.14.2019	Non Convertible	no	Senior
no	UNICREDIT SPA	XS1631415582	828	1,000	USD	06.19.2032	06.19.2027	Fixed to Floating	5.861% p.a. from Issue Date to 06.19.2027 payable semiannually; 3.703% p.a. + 5Y US Dollar Mid Swap Rate after 06.19.2027 payable semiannually	Non Convertible	no	Senior

**Notes:**

- (1) It should be noted that ISIN Guidelines (paragraph 7) state that "banking instruments or facilities such as bank loans are outside the scope of the ISO-6166 standard and should not be identified by ISIN codes". Therefore, the present section shows an internal identification code for those instruments classified as "Loans".
- (2) The write-up mechanisms described are aligned with the original Final Terms & Conditions; therefore, the classification of instruments is in line with the regulatory framework in force at the issuance date.



## B. Quantitative information

	(€ '000)	
OWN FUNDS	12.31.2017	12.31.2016
A. Common Equity Tier 1 Capital (CET1) before prudential filters	47,379,154	41,150,049
<i>of/w grandfathered CET1 instruments</i>	-	-
B. CET1 Prudential Filters (+/-)	(348,380)	(583,935)
C. CET1 gross of deductions and transitional adjustments (A +/- B)	47,030,774	40,566,114
D. Items to be deducted from CET1	553,637	11,684,912
E. Transitional adjustments - Effect on CET1 (+/-), including minority interests subject to transitional adjustments	(19,456)	(184,202)
F. Common Equity Tier 1 Capital (C - D +/- E)	46,457,682	28,697,001
G. Additional Tier 1 Capital (AT1) gross of deductions and transitional adjustments	5,315,898	3,203,234
<i>of/w grandfathered AT1 instruments</i>	706,337	819,770
H. Items to be deducted from AT1	35,741	26,696
I. Transitional adjustments - Effect on AT1 (+/-), including qualifying instruments issued by subsidiaries and computable in AT1 due to transitional provisions	(20,600)	-
L. Additional Tier 1 Capital (G - H +/- I)	5,259,556	3,176,538
M. Tier 2 (T2) Capital gross of deductions and transitional adjustments	9,351,350	9,546,430
<i>of/w grandfathered T2 instruments</i>	560,402	1,073,554
N. Items to be deducted from T2	732,820	801,538
O. Transitional adjustments - Effect on T2 (+/-), including qualifying instruments issued by subsidiaries and computable in T2 due to transitional provisions	(4,205)	31,053
P. Tier 2 Capital (M - N +/- O)	8,614,325	8,775,945
Q. Total Own Funds (F + L + P)	60,331,562	40,649,484

Own funds are calculated according to the transitional regime applicable period by period.

### Description of main capital items as of 31 December 2017

#### A. Common Equity Tier 1 Capital (CET1) before prudential filters

This item, equal to €47,379 million, includes:

- paid up instruments for €20,231 million;
- share premium for €13,258 million; compared to 31 December 2016 this item includes the following effects:
  - capital increase as approved by the Shareholders' Meeting on 12 January 2017 (equal to €12,984 million<sup>15</sup>);
  - reduction of the share premium (for €13,960 million) for the allocation of the 2016 year-end loss<sup>16</sup> of the Parent Company UniCredit S.p.A. and the coverage of negative reserves, as approved by the Shareholders' Meeting on 20 April 2017;
  - reduction of the share premium (for €117 million) relating to the elimination of the 5% limit for the exercise of voting rights and the mandatory conversion of saving shares into ordinary share (Corporate Governance amendments approved on 4 December 2017 by UniCredit S.p.A. Ordinary and Extraordinary Shareholders' Meeting and by the Special Meeting of Savings Shareholders);
- other reserves included retained earnings for €13,305 million. Such amount includes the year net profit of 2017, equal to €6,236 million, recognised in Own Funds for 5,506 million, hence reduced by dividends calculated at the date for €730 million (including distributions to social and charity initiatives), according to authorisation by the competent Authority as of CRR article 26(2);
- accumulated other comprehensive income, positive for €586 million, including - among the others - the following items:
  - reserves for actuarial losses (IAS19)<sup>17</sup> for €196 million<sup>18</sup>;
  - reserves on available for sale (AFS) securities for 537 million<sup>19</sup>.

The item includes neither the amount relating to Cashes (€609 million) reclassified in the Item "G. Additional Tier 1 Capital (AT1) gross of deductions and transitional adjustments", nor Saving Shares (€2 million) reclassified in the Item "M. Tier 2 (T2) Capital gross of deductions and transitional adjustments".

<sup>15</sup> In addition to the amount of €22 million registered under the accounting item Capital.

<sup>16</sup> As of 31 December 2016 the loss was reported in item "D. Items to be deducted from CET1".

<sup>17</sup> As of 1 January 2013, following the entry into force of the amendments to IAS19 (IAS19R), the elimination of the corridor method, requiring recognition of present value of defined benefit obligations, will result in an impact on the Net equity related to the recognition in the revaluation reserves of actuarial net losses not previously recognised in line with such method.

<sup>18</sup> The positive transitional adjustment is associated to this item, for €21 million, included in section "E. Transitional adjustments - Effect on CET1 (+/-), including minority interests subject to transitional adjustments".

<sup>19</sup> The transitional adjustment is associated to this item, for €107 million, included in section "E. Transitional adjustments - Effect on CET1 (+/-), including minority interests subject to transitional adjustments".

## Part F - Shareholders' Equity

### B. CET1 Prudential Filters

This item, negative for €348 million, includes:

- filters required by CRR including, mainly relating to:
  - positive filter on cash flow hedge reserve of financial instruments (CRR Art.33), equal to €32 million;
  - positive filter on gains on liabilities of the institutions related to changes in own credit standing (CRR Art.33), equal to €42 million;
  - negative filter on additional value adjustments (CRR Art.34), equal to €47 million;
- national filters as required by Banca d'Italia Circular No.285, referred to:
  - negative filter on multiple goodwill redemption ("affrancamenti multipli"), equal to €351million<sup>20</sup>;
  - negative filter on gain on sale of properties mainly used in operations ("cessione in blocco"), equal to €25 million.

### D. Items to be deducted from CET1

This item, equal to €554 million, includes the following main elements:

- other intangible assets, for €4 million;
- deferred tax assets that rely on future profitability and do not arise from temporary differences, for €156 million;
- excess of expected losses compared to provisions, for €225 million;
- deductions for securitisations, for €166 million.

### E. Transitional adjustments - Effect on CET1

This item, negative for €19 million, includes the following main elements:

- €107 million related to the negative adjustment regarding the exclusion of 20% of unrealised gains relating to (I) exposures towards EU Central Administrations classified in the portfolio "Available For Sale - AFS", equal to €71 million and (II) debt instruments other than those issued by EU Central Administration, for €21 million, and capital instruments classified in the portfolio "Available For Sale - AFS" for €16 million;
- €21 million relating to the positive adjustment on reserves for actuarial losses (IAS19) equal to 40% of the amount calculated according to CRR Article 473;
- €22 million relating to the positive adjustment for the 20% of the deduction related to deferred tax assets that rely on future profitability and do not arise from temporary differences;
- €45 million relating to the positive adjustment for the 20% of the deduction related to the excess of expected losses compared to provisions.

### G. Additional Tier 1 Capital (AT1) - gross of deductions and transitional adjustments

Compared to 31 December 2016 (amount equal to €3,203 million), the amount as of 31 December 2017 (equal to €5,316 million) includes the issue of two UniCredit S.p.A. Additional Tier 1 instruments: (i) XS1619015719 issued on 15 May 2017 for a total of €1.25 billion and (ii) XS1739839998 issued on 13 December 2017 for a total of €1 billion.

### I. Transitional adjustments - Effect on AT1, including qualifying instruments issued by subsidiaries and computable in AT1 due to transitional provisions

This item, negative for €20 million, includes the following main transitional adjustments:

- 20% (€2 million) of the amount of the deduction (€10 million) relating to direct positions in AT1 instruments issued by financial sector entities (FSE) in which a significant investment is held;
- deduction of 50% of the residual amount related to the excess of expected losses compared to provisions (€23 million).

### M. Tier 2 (T2) Capital gross of deductions and transitional adjustments

The present item includes, among the other elements, the excess of credit risk adjustments compared to expected losses on positions under IRB approach for €452 million, included in Tier 2 Capital up to 0,6% of risk-weighted exposures, in accordance with article 62 of CRR.

### O. Transitional adjustments - Effect on T2

The item, negative for €4 million, includes the following transitional adjustments:

- national positive filter as regulated by Banca d'Italia Circular No.285, equal to 20% of 50% of unrealised gains on AFS, equal to €18 million;
- €23 million relating to the negative adjustment for the deduction of 50% of the residual amount related to the excess of expected losses compared to provisions.

<sup>20</sup> The calculation takes into account the provisions of the Resolution n. 55/E of the Italian Revenue Agency (Agenzia delle Entrate) issued on 29 May 2015 concerning "Discipline of the tax credit resulting from the processing of deferred tax assets recorded in the financial statements referred to in Article 2, paragraphs 55 to 58 of Decree-Law 29 December 2010, No.225" ("Disciplina del credito d'imposta derivante dalla trasformazione di attività per imposte anticipate iscritte in bilancio di cui all'articolo 2, commi da 55 a 58, del decreto legge 29 dicembre 2010, n. 225").

## 2.2 Capital adequacy

### A. Qualitative information

For qualitative information, please refer to Notes to the Consolidated Accounts.

### B. Quantitative information

#### Capital Adequacy

(€ '000)

ITEMS/VALUES	NON-WEIGHTED AMOUNTS		WEIGHTED AMOUNTS	
	12.31.2017	12.31.2016	12.31.2017	12.31.2016
<b>A. RISK ASSETS</b>				
<b>A.1 CREDIT AND COUNTERPARTY RISK</b>	<b>435,954,279</b>	<b>420,866,328</b>	<b>182,806,862</b>	<b>181,055,646</b>
1. Standardised approach	235,031,131	219,645,778	105,956,940	109,535,063
2. IRB approaches	198,861,836	198,379,931	75,302,040	69,411,860
2.1 <i>Foundation</i>	-	-	-	-
2.2 <i>Advanced</i>	198,861,836	198,379,931	75,302,040	69,411,860
3. Securitisations	2,061,312	2,840,619	1,547,882	2,108,722
<b>B. CAPITAL REQUIREMENTS</b>				
<b>B.1 Credit and counterparty risk</b>			<b>14,625,398</b>	<b>14,485,829</b>
<b>B.2 Credit valuation adjustment risk</b>			<b>16,135</b>	<b>15,827</b>
<b>B.3 Settlement risk</b>			<b>1,339</b>	<b>2,034</b>
<b>B.4 Market Risk</b>			<b>645,757</b>	<b>572,548</b>
1. Standardised approach			-	-
2. Internal Models			645,757	572,548
3. Concentration Risk			-	-
<b>B.5 Operational Risk</b>			<b>854,642</b>	<b>972,713</b>
1. Basic indicator approach			-	-
2. Traditional standardised approach			-	-
3. Advanced measurement approach			854,642	972,713
<b>B.6 Other calculation elements</b>			<b>26,400</b>	<b>-</b>
<b>B.7 Total capital requirements</b>			<b>16,169,671</b>	<b>16,048,952</b>
<b>C. RISK ASSETS AND CAPITAL RATIOS</b>				
<b>C.1 Risk Weighted Assets</b>			<b>202,120,893</b>	<b>200,611,897</b>
<b>C.2 Common Equity Tier 1 Capital/Ris weighted assets (CET 1 capital ratio)</b>			<b>22.99%</b>	<b>14.30%</b>
<b>C.3 Tier 1 Capital/Risk weighted assets (Tie 1 capital ratio)</b>			<b>25.59%</b>	<b>15.89%</b>
<b>C.4 Total Own Funds/Risk weighted assets (Total capital ratio)</b>			<b>29.85%</b>	<b>20.26%</b>



## Part G - Business Combinations

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## Part G - Business Combinations

### Section 1 - Business Combinations completed in the year

#### 1.1 Business combinations

Business combinations with counterparties outside the Group are performed using the “purchase method” as required by IFRS3 “Business Combinations”, cited in the disclosure of Accounting policies, part A.2 concerning the main balance-sheet items.

In 2017, the Bank did not carry out any business combinations outside the Group.

In 2017, within the Group, business combinations were carried out as a result of mergers of wholly owned subsidiary (Business Combination Under Common Control) in line with the Group's strategic guidelines. These transactions, without any economic substance, were accounted for in the acquirer's and acquired entity's accounts in accordance with the continuity principle, are detailed below:

- on 1 August 2017 the merger of Buddy Servizi Molecolari S.p.A.;
- on 1 November 2017 the merger of Pioneer Global Asset Management (“PGAM”): the transaction realised with the aim of simplifying the structure of the Group, is the consequence of the sale to Amundi performed in 2017 by the merged company of its operating companies of the “Pioneer Investments” conglomerate.

For both transactions the starting date of the allocation of the transactions to the financial statements of the merging company and the tax effects of the merger is retroactive to 1 January 2017.

### Section 2 - Business Combinations completed after year-end

No business combinations are performed after year-end closing.







## Part H - Related-Party Transactions

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## Part H - Related-Party Transactions

For the purposes of financial disclosure, in accordance with the Commission Regulation (EU) No.632/2010 of 19 July 2010, the text of IAS24 applies, which defines the concept of related party and identifies the relations between that party and the entity producing the financial statements. IAS24 also explains that the disclosure should include transactions entered into with subsidiaries of associates and subsidiaries of joint ventures.

Pursuant to IAS24, UniCredit S.p.A.'s related parties include:

- companies belonging to UniCredit group and companies controlled by UniCredit but not consolidated;
- associates and joint ventures, as well as their subsidiaries;
- UniCredit's "Key management personnel";
- close family members of "key management personnel" and companies controlled (or jointly controlled) by key management personnel or their close family members;
- UniCredit group employee post-employment benefit plans.

Also for the management of related-party transactions refer to the discipline established by CONSOB Regulation No.17221/2010 (deriving from the provisions of Art.2391-bis of the Italian Civil Code) and by Banca d'Italia Circular No.263/2006 (Title V, Chapter 5) introduced in 2011 as well as the provisions pursuant to Art.136 of Legislative Decree No.385/1993, under which corporate officers may assume obligations towards the bank they manage, direct or control, only upon unanimous approval of the board of the bank and positive opinion of the Board of Statutory Auditors.

In this regard UniCredit, as a listed issuer and subject to Banca d'Italia regulations, has adopted the "Global Policy for the management of transactions with persons in conflict of interest", approved by the UniCredit's Board of Directors with the positive opinion of the Related-Parties and Equity Investments Committee and of the Board of Statutory Auditors, which is published on the UniCredit website ([www.unicreditgroup.eu](http://www.unicreditgroup.eu)), designed to define preliminary and conclusive rules with respect to transactions initiated by UniCredit, including those conducted through subsidiaries, with related parties, and the manner in which information is disclosed to corporate bodies, the supervisory authorities and the market. Specific guidelines contained in the Global Policy have been distributed to the company's functions and Group Legal Entities in order to systematically abide to the above-mentioned reporting requirements.

UniCredit has also established, in accordance with those guidelines, the abovementioned Related-Parties Committee and Equity Investments, consisting of three members appointed by the Board of Directors among its members qualified as "independent" within the meaning of article 3 of the Corporate Governance Code.

In addition, UniCredit applies specific control procedures regulated in the Global Policy: Internal controls on risk activities with subjects in conflict of interests, also approved by UniCredit's Board of Directors, upon recommendation of the Related-Parties and Equity Investments Committee and the Board of Statutory Auditors.

In 2017, transactions carried out with related parties reported in the data streams provided by the reference standards, were executed, on market or standard conditions and were carried out based on assessments of the economic interests of the Group.

See also paragraph "Certifications and other communications" in Report on Operations of this document.

## 1. Details of Key management personnel's compensation

Total compensation paid to Key management personnel in 2017 is given below pursuant to IAS24 and to the circular No.262 issued by Banca d'Italia on 22 December 2005 (4<sup>th</sup> update on 15 December 2015) requiring that also the Statutory Auditors' compensation be included.

Key management personnel are persons having authority and responsibility for planning, directing, and controlling UniCredit's activities, directly or indirectly. Key management personnel include the Chief Executive Officer and the other members of the Board of Directors, the Standing Auditors, the General Manager and the other Senior Executive Vice Presidents directly reporting to the Board of Directors or to the Chief Executive Officer<sup>21</sup>.

### Remuneration paid to key management personnel (including directors)

(€ '000)

	YEAR 2017	YEAR 2016
a) short-term employee benefits	15,146	19,630
b) post-retirement benefits	891	1,725
<i>of which: under defined benefit plans</i>	-	-
<i>of which: under defined contribution plans</i>	891	1,725
c) other long-term benefits	-	-
d) termination benefits	4,344	13,524
e) share-based payments	5,060	2,755
<b>Total</b>	<b>25,441</b>	<b>37,634</b>

The information reported above include the compensation paid to Directors (€4,851 thousand), Statutory Auditors (€712 thousand), General Manager (€1,649 thousand) and other Managers with strategic responsibility (€10,860 thousand), as shown in the document "Compensation tables and information document pursuant to Consob regulations" attached to the 2018 Group Compensation Policy, and €7,369 thousand relating to other costs borne in 2017 (the company share of social security contributions, allocations to severance pay funds and share-based payments using UniCredit and its subsidiaries' equity instruments).

The decrease in the overall compensation (€12,193 thousand) vs. 2016 is mainly due to the conservative approach to remuneration that in 2017 accompanied the launch of the Transform 2019 plan that, inter alia, lead to the decrease in the remuneration of the Chairman, Vice Chairmen and Chief Executive Officer, as well as to the reduction in expenses for compensation relating to the termination of employment relationships. The only increasing voice is the one relating to payments in shares, which reflects the shift of a substantial part of the variable remuneration from the short to the long term, in order to align the interests of management with those of shareholders.

<sup>21</sup> Up to September 2016 the cluster did include the other members of the CEO Office of UniCredit as well as the Head of Internal Audit.

## Part H - Related-Party Transactions

### 2. Related-Party Transactions

The following table sets out the assets, liabilities, guarantees and commitments as at 31 December 2017, for each group of related parties, pursuant to IAS24:

#### Related-party transactions: balance sheet items

(€ '000)

	AMOUNT AS AT 12.31.2017						% ON NON COMPANY ACCOUNTS	SHAREHOLDERS (*)	% ON NON COMPANY ACCOUNTS
	SUBSIDIARIES	JOINT VENTURE	ASSOCIATES	KEY MANAGEMENT PERSONNEL	OTHER RELATED PARTIES	TOTAL			
Financial asset held for trading	2,272,647	-	-	-	2,793	2,275,440	16.41%	1	-
Financial asset designated at fair value	-	-	-	-	-	-	-	-	-
Available for sale financial asset	-	-	99,577	-	10,654	110,231	0.19%	-	-
Held to maturity investments	-	-	-	-	-	-	-	-	-
Loans and receivables with banks	16,745,901	2,469,156	833,441	-	-	20,048,498	72.73%	-	-
Loans and receivables with customers	21,720,676	1,101,038	709,373	1,951	253,282	23,786,320	11.38%	799,168	0.38%
Hedging derivatives (assets)	4,307,167	-	-	-	-	4,307,167	97.89%	-	-
Other assets	368,434	3,647	1,042	-	-	373,123	7.94%	-	-
<b>Total Assets items</b>	<b>45,414,825</b>	<b>3,573,841</b>	<b>1,643,433</b>	<b>1,951</b>	<b>266,729</b>	<b>50,900,779</b>	<b>15.87%</b>	<b>799,169</b>	<b>0.25%</b>
Deposits from banks	13,100,812	53,808	40,771	-	-	13,195,391	23.23%	20,488	0.04%
Deposits from customers	610,304	-	584,856	3,767	257,107	1,456,034	0.74%	5,909	-
Debt securities in issue	20,203,246	12,030	58,127	20	-	20,273,423	25.11%	-	-
Hedging derivatives (liabilities)	4,259,665	-	-	-	-	4,259,665	93.45%	-	-
Other liabilities	423,260	224	1	-	-	423,485	5.41%	-	-
<b>Total Liabilities items</b>	<b>38,597,287</b>	<b>66,062</b>	<b>683,755</b>	<b>3,787</b>	<b>257,107</b>	<b>39,607,998</b>	<b>11.41%</b>	<b>26,397</b>	<b>0.01%</b>
Guarantees given and commitments	12,270,022	1,101,808	128,043	-	77,531	13,577,404	18.07%	-	-

Note:

(\*) Shareholders and related companies holding more than 2% of voting shares in UniCredit.

The following table sets out the impact of transactions with related parties on the main Income Statement items, for each group of related parties.

#### Related-party transactions: profit and loss items

(€ '000)

	AMOUNT AS AT 12.31.2017						% ON NON COMPANY ACCOUNTS	SHAREHOLDERS (*)	% ON NON COMPANY ACCOUNTS
	SUBSIDIARIES	JOINT VENTURE	ASSOCIATES	KEY MANAGEMENT PERSONNEL	OTHER RELATED PARTIES	TOTAL			
Interest income and similar revenues	547,287	94,730	28,039	15	4,908	674,979	12.00%	7,880	0.14%
Interest expense and similar charges	(383,249)	(805)	253	(6)	(25)	(383,832)	20.04%	(265)	0.01%
Fee and commission income	411,444	4,586	669,977	9	1,670	1,087,686	25.22%	560	0.01%
Fee and commission expense	(54,634)	(11)	(13,078)	-	-	(67,723)	17.30%	(165)	0.04%
Gains and losses on financial assets and liabilities held for trading	(579,135)	-	13,762	-	1,735	(563,638)	n.s.	(1)	-
Fair value adjustments in hedge accounting	(293,581)	-	-	-	-	(293,581)	n.s.	-	-
Impairment losses on:	(6,248)	-	(30,502)	(25)	676	(36,099)	2.28%	(538)	0.03%
a) loans	(6,180)	(2)	(25,023)	(25)	681	(30,549)	2.28%	(531)	0.04%
b) available for sale assets	(69)	-	(5,680)	-	-	(5,749)	1.83%	-	-
c) held-to-maturity assets	-	-	-	-	-	-	-	-	-
d) other financial assets	1	2	201	-	(5)	199	0.29%	(7)	-0.01%
Operating costs	(1,479,155)	3,209	(60,569)	1	6	(1,536,508)	24.62%	2	-

Note:

(\*) Shareholders and related companies holding more than 2% of voting shares in UniCredit.

The “other related-parties IAS” category includes:

- close family members of key management personnel (i.e. those family members who, as is expected, may influence, or be influenced by, the person in question);
- companies controlled (or jointly controlled) by key management personnel or their close family members;
- Group employee post-employment benefit plans.

The main related-party transactions are the following:

- In 2012 the subsidiary UniCredit Business Integrated Solutions S.C.p.A. (UBIS) assumed the role of operating sub-holding to provide the Group’s support services both in Italy and abroad.
  - With this regard, on 15 February 2013 the Board of Directors of UBIS approved the executive plan relating to the “Invoice Management” transaction aimed at the formation of a joint venture with the partner Accenture S.p.A. (Accenture) for the provision of back office services with respect to the “active and passive cycle” (issuance, receipt, verification, recording and payment of invoices). In relation to this, UBIS transferred, with effect from 1 April 2013, its “active and passive cycle” business unit to the company formed by Accenture and called “Accenture Back Office and Administration Services S.p.A.” and sold to Accenture some of the shares resulting from the transfer. Following the transaction, UBIS holds 49% of Accenture Back Office and Administration Services S.p.A.’s share capital; the remaining 51% is held by Accenture (which is the controlling shareholder).
  - Afterwards, on 19 April 2013, the Board of Directors of UBIS approved the executive plan of the project aimed at establishing a joint venture with another major player in the industry, IBM Italia S.p.A. (IBM), for the provision of technological infrastructure services (hardware, data centre, etc.) to Commercial Banking. The transaction was completed when UBIS transferred, with effect from 1 September 2013, the “Information Technology” business unit to the company “Value Transformation Services S.p.A.” (V-TServices), formed and controlled by IBM Italia S.p.A. Following the transaction, UBIS holds 49% of V-TServices’s share capital; the remaining 51% is held by IBM (which is therefore the controlling shareholder). In December 2016 a contractual renegotiation, with extension of expiry to December 2026, between UniCredit Business Integrated Solution e V-TService has been concluded with the aim of increasing value creation and ability to catch new opportunities from technological evolution.
- The services provided to UniCredit group by the abovementioned companies result in an exchange of fees (administrative costs). With reference to transactions with Mediobanca S.p.A. (“Mediobanca”), in addition to the transactions falling within the ordinary course of business and financial activity, UniCredit S.p.A. has entered into a thirty-year usufruct agreement on UniCredit shares with Mediobanca, under which Mediobanca gives back to UniCredit S.p.A., in return for a consideration (recorded as a reduction in Shareholders’ Equity), the right to vote and receive dividends on UniCredit S.p.A. shares subscribed for by Mediobanca in January 2009, as part of the capital increase approved by UniCredit in November 2008. These shares were concomitantly used in support of the issuance of convertible securities denominated “CASHES”. Following the resolutions of UniCredit S.p.A.’s Extraordinary Meeting of December 2011, the number of shares underlying the usufruct agreement and the formula for calculating the remuneration fees in favor of Mediobanca were adjusted to reflect (i) the reverse split of UniCredit S.p.A. shares and (ii) the free capital increase of December 2011 carried out through the allocation to capital of an equivalent amount transferred from the issue-premium reserve recorded in January 2009. In 2017 the fourth installment referred to the 2015 result has been paid for €32 million; as contractual conditions for installment payments referred to 2016 result have not been met, the related four instalments (May 2017, August 2017, November 2017 and February 2018) will not be paid.

As part of the “CASHES” transaction, Mediobanca also acts as a custodian of the shares issued by UniCredit S.p.A. Following a different qualification by Agenzia delle Entrate (Italian Tax Authority) of the fiscal regime of returns of CASHES compared to the interpretation used by UniCredit S.p.A. (as Depositary Bank), notified to the investors qualified as related parties or subjects that can be assimilated, conciliatory definitive transactions with such investors were defined in order to consistently compose the recourses.
- As at 31 December 2017 the Group’s exposure to Nuova Compagnia Partecipazioni (formerly Italtpetroli Group), considered part of the intragroup transactions, consisted mainly of the credit exposure.
- In April 2013, UniCredit S.p.A. started to act as primary dealer and market maker on the Italian, Portuguese, Spanish and Greek government bond markets (these roles were previously played by UniCredit Bank AG). In light of the fact that the model developed provides for the regular provision of services by UCB AG in support of the activity now carried out by UniCredit S.p.A., a cooperation agreement on the remuneration for these services was concluded, which was also in force for 2017, considered among intercompany transactions.
- In August 2014, Alitalia concluded an investment agreement with Etihad Airways aimed at strengthening Alitalia in terms of competitiveness and sustainable income, which also includes: (i) an investment of €560 million by Etihad, which thus became a non-controlling shareholder of the company; (ii) the commitment by the main stakeholders (in addition to UniCredit, Intesa Sanpaolo, Poste Italiane, Atlantia, Immsi, Pirelli, Gavio and Macca) to support an additional recapitalisation of the company (maximum liability for UniCredit of €62.1 million); and (iii) support for the transaction from the shareholder financial institutions and banks with a maximum of €598 million in the form of conversion and/or consolidation of short- and medium-term debt.

The transaction, which took effect on 1 January 2015, substantially resulted in: (i) the transfer by Alitalia CAI (subsequently renamed CAI) to a new company named Alitalia-Società Aerea Italiana S.p.A. (SAI) of the business pertaining to all the operating activities performed; (ii) the transfer to Midco S.p.A., by Alitalia CAI, of the investment in SAI deriving from the contribution of the aforementioned business; (iii) the subscription by Etihad, through a cash payment of €387.5 million, of a capital increase of SAI resulting in Etihad holding 49% of SAI (the residual 51% is held by CAI, through Midco).

## Part H - Related-Party Transactions

Following the restructuring of the short- and medium-term debt by the financial institutions and shareholder banks, at the end of 2014 UniCredit held a share of 33.50% of CAI (36.59% at the end of 2017).

- With regard to UniCredit's current strategy of disposal of "non-core" assets in order to strengthen the Group's risk profile as per the Transform 2019 plan, it should be noted that:
  - In June 2017, an agreement was signed with MBCredit Solution S.p.A. (member of Mediobanca Group) for the non-recourse sale in three tranches of bad exposures from consumer loan portfolios, two tranches of which were completed in 2017 and the third tranche is to be completed in the first half of 2018.
  - In November and December 2017, two further agreements were signed with MBCredit Solution S.p.A. for (i) the non-recourse sale of a portfolio of loans with the Italian SME segment and (ii) for the sale of a portfolio of loans deriving from unsecured terminated lease agreements.
- In December 2017, a settlement agreement was signed amending administrative services contracts for the management of UniCredit S.p.A. and UniCredit Bank Austria AG personnel at UBIS and Enterprise Services - Shared Service Center S.p.A. (which is 49% owned by UBIS and 51% owned by Enterprise Services S.r.l.). The agreement provides for the termination of the service contract in Italy and the sale of the interest held by UBIS to the majority shareholder during 2018, as well as an extension of the term of the service contract in Austria until 2033.
- It should be noted that distribution agreements concerning insurance products were signed with the following associates:
  - Aviva S.p.A.;
  - CNP UniCredit Vita S.p.A.;
  - Creditras Assicurazioni S.p.A.;
  - Creditras Vita S.p.A.;
  - Incontra Assicurazioni S.p.A.
- The relationships with other related parties include the relationships with external pension funds (for UniCredit employees), since they have separate legal personality. These transactions were conducted on the same terms and conditions as those applied to transactions with independent third parties. The relationships with these pension funds are almost entirely represented by the relationships included in Deposits from customers (and related interests).







# Part I - Share based Payments

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## Part I - Share based Payments

### A. Qualitative Information

#### 1. Description of payment agreements based on own equity instruments

##### 1.1 Outstanding instruments

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

- **Equity-Settled Share Based Payments**, which provide for the delivery of shares;
- **Cash-Settled Share Based Payments**, which provide for a cash payments.

The first category includes the following:

- **Stock Options** allocated to selected top & senior managers and key talents of the Group and represented by subscription rights of UniCredit shares;
- **Group Executive Incentive System** that offers to eligible Group executive a variable remuneration for which payment will be made within five years. The beneficiary will receive the payment in cash and/or in UniCredit shares; the payment is related to the achievement of performance conditions (other than market conditions) stated in the plan rules;
- **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. 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) according to the plan rules (both non-market vesting conditions);
- **Employee Share Ownership Plan (ESOP - Let's Share)** that offers to eligible Group employees the opportunity to buy UniCredit ordinary shares with the advantages to foresee the granting of free ordinary shares ("free shares") or rights to receive them measured on the basis of the shares purchased by each participant ("investment shares") during the "enrolment period". The granting of free ordinary shares is subordinated to the plan rules;
- **Long Term Incentive 2017-2019** that offers to eligible executives and key players of the Group an incentive 100% based on ordinary UniCredit shares, subject to 3-years deferral and to malus and claw-back conditions, as legally enforceable, according to the plan rules. The plan is structured on 3-years performance period, aligned to the new UniCredit strategic plan and provides for the allocation of an award based on gateway conditions on profitability, liquidity, capital and risk position and a set of performance conditions focused on Group targets, aligned with Transform 2019.

The second category includes the **Group Long Term Incentive Plan 2015-2018** that offers to selected top managers of the UniCredit S.p.A. other equity instruments (phantom shares) with the right to receive a future cash incentives determined by the market price of UniCredit ordinary shares. This right is subject to the achievement of specific performance indicators and malus and claw back conditions (as legally enforceable) according to the plan rules. This payment structure will guarantee the alignment to the shareholders and top management interests, rewarding long term value creation, share price and Group performance appreciation. This plan was forfeited during the 2017 first half.

It is also noted that, according to Banca d'Italia Circular 285 (20° update dated 22 November 2017), the equity-settled share based payments, represented by deferred payments in UniCredit ordinary shares not subject to vesting conditions, are used for the settlement of the so-called golden parachute (e.g. severance) for the relevant employees.

##### 1.2 Measurement model

###### 1.2.1 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 recognised on a basis of instrument vesting period.

Any new stock options' plans haven't been granted during 2017.

### 1.2.2 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 is expressed 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.

### 1.2.3 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 a basis of instruments' vesting period.

#### Group Executive Incentive System "Bonus Pool 2016" - Shares

The plan is divided into clusters, each of which can have three or four installments of share-based payments spread over a period defined according to plan rules.

	SHARES GRANTED			
	GROUP EXECUTIVE INCENTIVE SYSTEM - BONUS POOL 2016			
	INSTALLMENT (2019)	INSTALLMENT (2020)	INSTALLMENT (2021)	INSTALLMENT (2022)
Date of bonus opportunity economic value granting	Feb-09-2016	Feb-09-2016	Feb-09-2016	Feb-09-2016
Date of Board resolution (to determine number of shares)	Mar-13-2017	Mar-13-2017	Mar-13-2017	Mar-13-2017
Vesting period start-date	Jan-01-2016	Jan-01-2016	Jan-01-2016	Jan-01-2016
Vesting period end-date	Dec-31-2016	Dec-31-2018	Dec-31-2019	Dec-31-2020
UniCredit share market price [€]	13.057	13.057	13.057	13.057
Economic value of vesting conditions [€]	-0.231	-0.562	-0.993	-1.421
<b>Performance shares' fair value per unit @ grant date [€]<sup>(*)</sup></b>	<b>12.826</b>	<b>12.495</b>	<b>12.064</b>	<b>11.636</b>

Note:

(\*) The same fair value per unit are used for quantification of costs connected to share based payments for the settlement of golden parachute.

### Group Executive Incentive System 2017 (Bonus Pool)

The new Group Incentive System 2017 is based on a bonus pool approach, aligned with regulatory requirements and market practices, which defines:

- sustainability, through direct link with entity results and alignment with relevant risk categories, utilising specific indicators linked to risk-appetite framework;
- link between bonuses and organisation structure, defining the pool at country/division level with further review at Group level;
- bonuses allocated to executives and other relevant employee, identified on a basis of European Bank Authority (EBA) rules, according to local regulations;
- payment structure has been defined in accordance with regulatory provisions qualified by Directive 2013/36/EU (CRD IV) and will be distributed in a period of six years by using a mix of shares and cash.

All profit and loss and net equity effects related to the plan will be booked during the vesting period.

### 1.2.4 Employee Share Ownership Plan (Let's Share for 2017)

The following tables show the measurements and parameters used in relation to free shares (or rights to receive them) connected to the "Employee Share Ownership Plan" approved in 2016.

#### Measurement of Free Shares ESOP for 2017

	FREE SHARES ELECTION WINDOW
Date of free shares delivery to Group employees	Jul-31-2017
Vesting period start-date	Jul-31-2017
Vesting period end-date	Jul-31-2018
<b>Free shares' fair value per unit [€]</b>	<b>17.000</b>

All profit and loss and net equity effects referred to free shares will be booked during the vesting period (except adjustments, according to plan rules, that will be booked during the next closing after vesting period). The plan Let's share for 2017 plan provides for the use of shares to be purchased on the market.

## Part I - Share based Payments

### 1.2.5 Long Term Incentive 2017-2019

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.

The plan is divided into clusters, based on the beneficiary position, each of which can have from one to four installments of share-based payments spread over a period defined according to plan rules.

	SHARES GRANTED LONG TERM INCENTIVE 2017-2019			
	INSTALLMENT (2020)	INSTALLMENT (2021)	INSTALLMENT (2022)	INSTALLMENT (2023)
Date of bonus opportunity economic value granting	Jan-09-2017	Jan-09-2017	Jan-09-2017	Jan-09-2017
Date of Board resolution (to determine number of shares)	Jan-09-2017	Jan-09-2017	Jan-09-2017	Jan-09-2017
Vesting period start-date	Jan-01-2017	Jan-01-2017	Jan-01-2017	Jan-01-2017
Vesting period end-date	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022
UniCredit share market price [€]	13.816	13.816	13.816	13.816
Economic value of vesting conditions [€]	-0.563	-0.995	-1.425	-1.853
<b>Performance shares' fair value per unit @ grant date [€]</b>	<b>13.253</b>	<b>12.821</b>	<b>12.391</b>	<b>11.963</b>

## B. Quantitative Information

### 1. Annual changes

#### Stock Option and Performance Stock Option UniCredit

ITEMS/NUMBER OF OPTIONS AND EXERCISE PRICE	YEAR 2017 <sup>(1)</sup>			YEAR 2016 <sup>(1)</sup>		
	NUMBER OF OPTIONS	AVERAGE EXERCISE PRICE [€]	AVERAGE MATURITY	NUMBER OF OPTIONS	AVERAGE EXERCISE PRICE [€]	AVERAGE MATURITY
<b>A. Outstanding at beginning of period</b>	<b>4,288,319</b>	<b>137.099</b>	<b>Aug-2018</b>	<b>6,453,298</b>	<b>109.018</b>	<b>Jul-2019</b>
<b>B. Increases</b>	-	-	-	-	-	-
B.1 New issues	-	-	-	-	-	-
B.2 Other	-	-	-	-	-	-
<b>C. Decreases</b>	<b>1,402,520</b>	-	-	<b>2,164,979</b>	-	-
C.1 Forfeited	963,056	145.763	-	513,633	160.454	-
C.2 Exercised	-	-	-	-	-	-
C.3 Expired	439,464	-	-	1,651,346	-	-
C.4 Other	-	-	-	-	-	-
<b>D. Outstanding at end of period</b>	<b>2,885,799</b>	<b>126.261</b>	<b>Oct-2018</b>	<b>4,288,319</b>	<b>137.099</b>	<b>Aug-2018</b>
<b>E. Vested Options at end of period</b>	<b>2,885,799</b>	<b>126.261</b>	<b>Oct-2018</b>	<b>4,288,319</b>	<b>137.099</b>	<b>Aug-2018</b>

**Note:**

(1) The information related to number of options and average exercise price had been modified following the grouping operations resolved by UniCredit Annual General Meeting held on 15 December 2011 and the UniCredit Extraordinary Shareholders' Meeting on 12 January 2017 and following the application of "adjustment factors" recommended by AIAF (Associazione Italiana Analisti Finanziari) equal to:

- 0.88730816 as the free capital increase resolved by the UniCredit Annual General Meeting on 29 April 2009 ("scrip dividend");
- 0.95476659 as the capital increase resolved by the UniCredit Extraordinary Shareholder Meeting on 16 November 2009 and finalised on 24 February 2010;
- 0.6586305 as the capital increase resolved by the UniCredit Extraordinary Shareholders' Meeting on 15 December 2011 and finalised in 2012;
- 0.50112555 as the capital increase resolved by the UniCredit Extraordinary Shareholders' Meeting on 12 January 2017 and finalised on 2 March 2017.

## Other UniCredit equity instruments: Performance Shares

ITEMS/NUMBER OF OTHER EQUITY INSTRUMENTS AND EXERCISE PRICE	YEAR 2017 <sup>(1)</sup>			YEAR 2016 <sup>(1)</sup>		
	NUMBER OF OTHER EQUITY INSTRUMENTS	AVERAGE EXERCISE PRICE [€]	AVERAGE MATURITY	NUMBER OF OTHER EQUITY INSTRUMENTS	AVERAGE EXERCISE PRICE [€]	AVERAGE MATURITY
<b>A. Outstanding at beginning of period</b>	<b>8,515,174</b>	-	<b>Feb-2018</b>	<b>6,497,218</b>	-	<b>Mar-2017</b>
<b>B. Increases</b>	<b>9,197,282</b>	-	-	<b>4,733,568</b>	-	-
B.1 New issues	9,197,282	-	-	4,733,568	-	-
B.2 Other	-	-	-	-	-	-
<b>C. Decreases</b>	<b>1,938,819</b>	-	-	<b>2,715,612</b>	-	-
C.1 Forfeited	651,780	-	-	68,052	-	-
C.2 Exercised <sup>(2)</sup>	1,287,039	-	-	2,647,560	-	-
C.3 Expired	-	-	-	-	-	-
C.4 Other	-	-	-	-	-	-
<b>D. Outstanding at end of period<sup>(3)</sup></b>	<b>15,773,637</b>	-	<b>Aug-2019</b>	<b>8,515,174</b>	-	<b>Feb-2018</b>
<b>E. Vested instruments at end of period</b>	<b>5,828,989</b>	-	-	<b>3,374,865</b>	-	-

### Notes:

(1) The information related to number of options and average exercise price had been modified following the grouping operation resolved by UniCredit Extraordinary Shareholders' Meeting held on 12 January 2017 and following the application of "adjustment factor" equal to 0.50112555 recommended by AIAF (Associazione Italiana Analisti Finanziari) for the capital increase resolved by the UniCredit Extraordinary Shareholder Meeting on 12 January 2017 and finalised on 2 March 2017.

(2) As far as the 2017 movement is concerned, the average market price at the exercise date is equal to €14.23 (€18.54 was the price observed at exercise date for 2016 movimentation).

(3) UniCredit undertakes to grant, conditional upon achieving performance targets set in the strategic plan, 15,773,637 ordinary shares at the end of 2017 (8,515,174 ordinary shares at the end of 2016).

According to Let's Share 2017 plan rules, in July 2017 it had been delivered to Group participants 129.716 free shares related to services rendered during the period 2017-2018.

The said above UniCredit free ordinary shares had been acquired on the market, and are not considered in the table of annual changes.

## 2. Other information

### Effects on Profit and Loss

All Share-Based Payment granted after 7 November 2002 whose vesting period ends after 1 January 2005 are included within the scope of the IFRS2.

### Financial statement presentation related to share based payments

(€ '000)

	2017		2016	
	TOTAL	VESTED PLANS	TOTAL	VESTED PLANS
<b>(Costs)/Revenues</b>	<b>(29,765)</b>		<b>(31,428)</b>	
- connected to equity-settled plan <sup>(1)</sup>	(32,413)		(28,780)	
- connected to cash-settled plans <sup>(2)</sup>	2,648		(2,648)	
<b>Debts for cash-settled plans<sup>(2)</sup></b>	<b>-</b>	<b>-</b>	<b>3,719</b>	<b>-</b>

### Notes:

(1) Includes costs for €5.2 million related to golden parachute.

(2) The decrease in the costs and debts for cash-settled plans is due to the forfeiting of the Group Long Term Incentive Plan 2015-2018 occurred during the 2017 first half.



# Part L - Segment Reporting

Segment Reporting

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## Part L - Segment Reporting

Segment Reporting of UniCredit S.p.A., Parent Company of the UniCredit banking group, is provided in Part L of the Consolidated Notes to the Accounts, in accordance to the IFRS8.







# Annexes

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## Reconciliation between reclassified balance sheet and income statement accounts and mandatory reporting schedules

A reconciliation of the reclassified balance sheet and profit and loss account to the mandatory reporting schedules, is provided below.

### Balance Sheet

(€ million)

	AMOUNTS AS AT	
	12.31.2017	12.31.2016
<b>ASSETS</b>		
Cash and cash balances	25,817	1,852
10. Cash and cash balances	25,817	1,852
Financial assets held for trading	13,864	14,026
20. Financial assets held for trading	13,864	14,026
Loans and receivables with banks	27,567	22,349
60. Loans and receivables with banks	27,567	22,349
Loans and receivables with customers	208,965	213,237
70. Loans and receivables with customers	208,965	213,237
Financial investments	105,278	108,374
30. Financial assets at fair value through profit or loss	652	159
40. Available-for-sale financial assets	59,718	64,525
50. Held-to maturity investments	762	755
100. Investments in associates and joint ventures	44,145	42,935
Hedging instruments	6,114	8,160
80. Hedging derivatives	4,400	6,096
90. Changes in fair value of portfolio hedged items (+/-)	1,714	2,064
Property, plant and equipment	2,209	2,341
110. Property, plant and equipment	2,209	2,341
Goodwill	-	-
120. Intangible assets net of which: goodwill	-	-
Other intangible assets	4	5
120. Intangible assets net of goodwill	4	5
Tax assets	10,311	12,005
130. Tax assets	10,311	12,005
Non-current assets and disposal groups classified as held for sale	150	7,439
140. Non-current assets and disposal groups classified as held for sale	150	7,439
Other assets	4,701	4,400
150. Other assets	4,700	4,400
<b>Total assets</b>	<b>404,980</b>	<b>394,188</b>

continued: Balance Sheet

(€ million)

	AMOUNTS AS AT	
	12.31.2017	12.31.2016
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Deposits from banks	56,807	44,381
10. Deposits from banks	56,807	44,381
Deposits from customers and debt securities in issue	262,084	279,648
20. Deposits from customers	197,138	196,521
30. Debt securities in issue	64,946	83,127
Financial liabilities held for trading	13,068	14,557
40. Financial liabilities held for trading	13,068	14,557
Financial liabilities at fair value through profit or loss	2,738	2,103
50. Financial liabilities at fair value through profit or loss	2,738	2,103
Hedging instruments	6,279	8,920
60. Hedging derivatives	4,558	6,127
70. Changes in fair value of portfolio hedged items (+/-)	1,720	2,793
Provisions for risks and charges	1,843	3,407
120. Provisions for risks and charges	1,843	3,407
Tax liabilities	1	162
80. Tax Liabilities	1	162
Liabilities included in disposal group classified as held for sale	-	3
90. Liabilities included in disposal group classified as held for sale	-	3
Other liabilities	8,652	8,310
100. Other liabilities	7,824	7,291
110. Provision for employee severance pay	828	1,020
Shareholders' Equity:	53,508	32,697
- Capital and reserves	46,964	43,718
130. Revaluation reserves, of which: Special revaluation laws	277	277
140. Redeemable shares	-	-
150. Equity instruments	4,610	2,383
160. Reserves	7,799	5,828
170. Share premium	13,400	14,385
180. Issued capital	20,881	20,847
190. Treasury shares	(2)	(2)
- AFS assets fair value reserve, Cash-flow hedging reserve and Defined benefits plans reserve	308	439
130. Revaluation reserves, of which: Available-for-sale financial assets	537	644
130. Revaluation reserves, of which: Cash-flow hedges	(32)	7
130. Revaluation reserves, of which: Defined benefits plans	(196)	(212)
- Net profit (loss)	6,236	(11,460)
200. Net profit (loss) for the period (+/-)	6,236	(11,460)
<b>Total liabilities and Shareholders' Equity</b>	<b>404,980</b>	<b>394,188</b>

An explanation for the restatement of comparative figures is provided in the previous sections.

# Reconciliation between reclassified balance sheet and income statement accounts and mandatory reporting schedules

## Income Statement

(€ million)

	YEAR	
	2017	2016
Net interest	3,711	3,693
30. Net interest margin	3,711	3,693
Dividends and other income from equity investments	3,808	1,173
70. Dividend income and similar revenue	3,808	1,173
Net fees and commissions	3,798	3,574
60. Net fees and commissions	3,921	3,696
less: Other administrative expenses - of which: outsourced services for the management of Non-Performing loans	(135)	(161)
+ Other operating income - of which: recovery of costs - Commissioni di istruttoria veloce (CIV)	12	40
Net trading income	302	360
80. Gains (Losses) on financial assets and liabilities held for trading	85	141
90. Fair value adjustments in hedge accounting	(13)	(3)
100. Gains (Losses) on disposal of: b) available-for-sale financial assets	314	295
less: Gains (Losses) on disposals AFS - Equity instruments - Equity investments - day one profit/loss	(20)	-
100. Gains (Losses) on disposal of: d) financial liabilities	37	9
110. Gains (Losses) on financial assets/liabilities at fair value through profit or loss	(101)	(83)
Net other expenses/income	(95)	110
190. Other net operating income	432	588
+ Gains (Losses) on disposal/repurchase on loans and receivables - not impaired position (from item 100)	16	125
+ outsourced services for the management of Non-Performing loans - penalties	(9)	-
less: Other operating income - of which: recovery of expenses	(558)	(625)
less: Other operating expenses - of which on leasehold improvements	24	22
<b>OPERATING INCOME</b>	<b>11,524</b>	<b>8,910</b>
Payroll costs	(3,139)	(3,298)
150. Administrative costs - a) staff expenses	(3,121)	(4,461)
less: integration costs	(18)	1,163
Other administrative expenses	(2,694)	(2,839)
150. Administrative costs - b) other administrative expenses	(2,995)	(3,603)
less: contributions to Resolution Funds and Deposit Guarantee Schemes (DGS) and Guarantee fees for DTA	181	624
less: outsourced services for the management of Non-Performing loans	135	161
less: outsourced services for the management of Non-Performing loans - penalties	9	-
+ Other operating expenses - of which on leasehold improvements	(24)	(22)
Recovery of expenses	546	586
190. Other net operating income - of which: Operating income - recovery of expenses	558	625
less: commissioni istruttoria veloce (CIV)	(12)	(40)
Amortisation, depreciation and impairment losses on intangible and tangible assets	(137)	(134)
170. Impairment/Write-backs on property, plant and equipment	(165)	(183)
less: Impairment losses/write backs on property owned for investment	32	51
180. Impairment/Write-backs on intangible assets	(4)	(2)
<b>Operating costs</b>	<b>(5,424)</b>	<b>(5,685)</b>
<b>OPERATING PROFIT (LOSS)</b>	<b>6,100</b>	<b>3,225</b>
Net impairment losses of loans and provisions for guarantees and commitments	(1,854)	(10,379)
100. Gains (Losses) on disposal of: a) loans	(569)	4
less: gains and losses on disposal/repurchase on loans and receivables - not impaired position (from item 100)	(16)	(125)
130. Impairment losses on a) loans	(1,337)	(9,997)
130. Impairment losses on d) other financial assets	68	(252)
less: contribution to National Interbank Deposit Guarantee Fund (FITD)	-	(10)
<b>NET OPERATING PROFIT (LOSS)</b>	<b>4,246</b>	<b>(7,154)</b>
Other charges and provisions	(565)	(1,501)
160. Net provisions for risks and charges	(388)	(886)
+ contributions to Resolution Funds and Deposit Guarantee Schemes (DGS) and Guarantee fees for DTA	(181)	(624)
+ contribution to National Interbank Deposit Guarantee Fund (FITD)	-	10
less: integration costs	4	-
Integration costs	14	(1,163)
Net income (losses) from investments	2,427	(1,444)
130. Impairment losses on: b) available-for-sale financial assets	(314)	(685)
+ impairment losses/write backs on property owned for investment	(32)	(51)
+ Gains (Losses) on disposals AFS - Equity instruments - Equity investments - day one profit/loss	20	-
210. Profit (Loss) of investments	2,743	(730)
240. Gains (Losses) on disposal of investments	10	22
<b>PROFIT (LOSS) BEFORE TAX</b>	<b>6,122</b>	<b>(11,262)</b>
Income tax	30	(198)
260. Tax expense (income) related to profit or loss from continuing operations	30	(198)
<b>PROFIT (LOSS) AFTER TAX</b>	<b>6,152</b>	<b>(11,460)</b>
Profit (Loss) from non-current assets held for sale after tax	84	-
280. Profit (Loss) after tax from discontinued operations	84	-
Impairment of goodwill	-	-
230. Impairment of goodwill	-	-
<b>NET PROFIT (LOSS)</b>	<b>6,236</b>	<b>(11,460)</b>
290. Net profit (loss) for the year	6,236	(11,460)

An explanation for the restatement of comparative figures is provided in the previous sections.

# Fees for annual audits and other services

(pursuant to article 149-duodecies, CONSOB Regulation No.11971/99, as supplemented)

(€ '000)

DISCLOSURE OF EXTERNAL AUDITORS' FEES - UNICREDIT S.P.A. - FINANCIAL YEAR 2017 - DELOITTE NETWORK					
As prescribed by §149-duodecies of the Consob Issuers Regulation, the following table gives fees paid in 2017 for audit services rendered by the Auditor and firms in its network.					
EXTERNAL AUDITING	UNICREDIT GROUP SUBSIDIARY ASSIGNING THE SERVICE		DESCRIPTION OF SERVICE	TYPE	FEES <sup>(1)</sup>
	SERVICE PROVIDER	COMPANY NAME			
	NAME OF AUDITING FIRM	COMPANY NAME			
Auditing Firm	Deloitte & Touche S.p.A.	UniCredit S.p.A.	Audit of Company and Consolidated Accounts and First Half Report, accounting checks and foreign branches <sup>(2)</sup>		2,925
<b>Auditing Firm Total</b>					<b>2,925</b>
<b>External Auditing Total</b>					<b>2,925</b>
CHECKING FOR THE PURPOSES OF OTHER OPINIONS	UNICREDIT GROUP SUBSIDIARY ASSIGNING THE SERVICE		DESCRIPTION OF SERVICE	TYPE	FEES <sup>(1)</sup>
	SERVICE PROVIDER	COMPANY NAME			
	NAME OF AUDITING FIRM	COMPANY NAME			
Auditing Firm	Deloitte & Touche S.p.A.	UniCredit S.p.A.	Limited review on 2017 non financial information, Limited review on 1Q2017 and 3Q2017 Consolidated Reports for the inclusion of interim net profits in Common Equity Tier 1 capital, IFRS9 Structured Review and implementation review, Issuing Comfort Letters concerning bond issues, Signing the Italian tax declaration forms		3,319
<b>Auditing Firm Total</b>					<b>3,319</b>
Network Auditing Firm(s)	Deloitte & Touche China, Deloitte & Touche Abu Dhabi, Deloitte & Touche Spain	UniCredit S.p.A.	Local statutory audit report of foreign branches of Shanghai, Guangzhou, Abu Dhabi and Madrid according to local regulations		107
<b>Network Auditing Firm(s) Total</b>					<b>107</b>
<b>Data Checking Total</b>					<b>3,426</b>
OTHER NON-AUDITING SERVICES	UNICREDIT GROUP SUBSIDIARY ASSIGNING THE SERVICE		DESCRIPTION OF SERVICE	TYPE	FEES <sup>(1)</sup>
	SERVICE PROVIDER	COMPANY NAME			
	NAME OF THE AUDITING FIRM	COMPANY NAME			
Auditing Firm	Deloitte & Touche S.p.A.	UniCredit S.p.A.	Agreed Upon Procedure (AUP) on own funds, AUP on quarterly calculation foreign exchange risk of CIUs, AUP on contributions to the Single Resolution Fund, AUP on Servicing Report Cordusio RMBS, AUP on sales figures as requested by EU Commission	Other services	322
<b>Auditing Firm Total</b>					<b>322</b>
Network Auditing Firm(s)	Deloitte Consulting S.r.l.	UniCredit S.p.A.	Support to Projects "App Refresh Feasibility Study", "Gestione Normativa: digitalizzazione dell'iter approvativo", "Gestione Normativa: Processo Sub Deleghie - fase 2" and "Reporting e Data Model"	Other services	622
<b>Network Auditing Firm(s) Total</b>					<b>622</b>
<b>Other Non-Auditing Services Total</b>					<b>944</b>
<b>Grand Total</b>					<b>7,295</b>

**Notes:**

(1) Net of VAT and out-of-pocket expenses.

(2) Contract authorised by the Resolution of the Shareholders' Meeting of 11 May 2012 for a total amount of €2,206,600 (integrated by €150,000 in 2013, by €250,000 in 2016 and by €250,000 in 2017), plus ISTAT indexation amounting to €68,297.

# Internal Pension Funds: Statement of Changes in the Year and Final Accounts

## Internal Pension Funds

On completion of the restructuring of the Italian internal pension funds, on 2 January 2017 the positions relating to the beneficiaries who had not subscribed to the pension capitalization offer completed in 2016, were transferred to the Group Pension Fund. The operation involved the transfer of approximately 4,000 members and the establishment of plan assets for a total of €294,446,475. The Group Fund, which took over the payment of the annuity, managed these assets through the establishment of a dedicated section and with a long-term return target in line with the profile of the pension commitments for the entire duration of the plan. In addition, on 29 December 2017, COVIP, having acknowledged the exhaustion of the social security purpose, ordered the cancellation of the following internal pension funds from the Register:

- Pension Fund for the employees of Cassa di Risparmio di Trieste Collections Division Registration No.9081;
- Supplementary Pension Fund for employees of Cassa di Risparmio di Torino in liquidation Registration No.9084;
- Supplementary Pension Fund for the collection management staff of Cassa di Risparmio di Torino Registration No.9085;
- Supplementary Company Pension Fund of the general obligatory insurance for the employees of the credit section of Cassa di Risparmio di Trento e Rovereto S.p.A., the Social Security Fund for employees of the agencies of the Tax and for the employees Collections Service, of the tax collection agency of Cassa di Risparmio di Trento e Rovereto S.p.A. Section A - Registration No.9131;
- Contract for Pensions and Social Security for Staff belonging to the Management/Senior Management, Officers, Managers, Employees, Subordinate employee and Auxiliary staff categories of Cariverona Banca S.p.A. - Registration No.9013;
- Supplementary pension fund of the obligatory insurance, invalidity, widows and survivors insurance (managed by the INPS) of the Cassa di Risparmio di Ancona (absorbed on 1/10/89 by Cariverona Banca S.p.A.) - Registration No.9033;
- Pension fund for employees, clerks and auxiliary workers of Banca Cuneese Lamberti Meinardi & C. - Cuneo (absorbed on 1/8/92 by Cariverona Banca S.p.A.) - Registration No.9012;
- Pension fund for the employees of the former Credito Fondiario delle Venezie S.p.A. - Registration No.9067;
- Agreement for the regulation of the social security benefits of the employees of the Istituto Federale delle Casse di Risparmio delle Venezie S.p.A. - Registration No.9068;
- Internal Company Fund (FIA) of the former Credito Romagnolo + CIP former Banca del Friuli - Registration No.9151;
- Supplementary Pension Fund for the employees of the former Carimonte Banca S.p.A. - Registration No.9147;
- Fund for the employees of Magazzini Generali - Registration No.9148;
- Supplementary retirement benefits in favour of the members of the General Management of Credito Italiano who retired between 1 January 1963 and 30 September 1989 attributed to UniCredito Italiano - Registration No.9029;
- Company Social Security Fund supplementing INPS benefits. Additional-benefit reserve accounts for employees of former Banca dell'Umbria 1462 S.p.A. included the Tax Collection Service SORIT - Registration No.9021 and No.9020;
- Company Social Security Fund supplementing INPS benefits of Cassa Risparmio Carpi S.p.A. Defined-benefit reserve account for former employees - Registration No.9022;
- Pension fund for the employees of former UniCredit Banca Mediocredito - Registration No.9127;
- Pension fund for the employees of Capitalia Head Office (former Banco di S. Spirito, former Banco di Roma and former Cassa di Risparmio di Roma) - Registration No.9165;
- Statement post-employment benefits and pensions for staff of the Cassa di Risparmio di Roma - Registration No.9096;
- Statement of Post-employment benefit for staff of Banco di Sicilia - Registration No.9161;
- Statement of the FIP former Sicilcassa - supplementary pension fund for staff of Cassa Centrale di Risparmio V.E. per le province siciliane - Registration No.9063.

In addition, the remaining positions of the following defined contribution funds were liquidated due to the transfer to other forms of supplementary pensions or liquidation to members:

- Supplementary Pension Fund of the general obligatory insurance for the employees of the credit section of Cassa di Risparmio di Trento e Rovereto S.p.A., the Social Security Fund for the employees of the tax collection agencies of the Tax Collection Service and for the employees of the tax collection agency of Cassa di Risparmio di Trento e Rovereto S.p.A. Sections B e C - Registration No.9131;
- Company Pension Fund supplementing INPS benefits. Defined-contribution account of former Banca dell'Umbria 1462 S.p.A. - Registration No.9021.

As at 31 December 2017 we highlight the existence in UniCredit S.p.A. of the evidence relating to the funds set up for the employees of the London branch and the Munich branch, of which we report the principal details.



(€ '000)

FUNDS AND DESCRIPTION OF MOVEMENTS	NO. OF RETIREES AS AT 12.31.2017	NO. OF MEMBERS AS AT 12.31.2017	TYPE	ACCOUNTING FIGURES	CONTRIBUTION RATE
<b>Statement of the "Pension fund for employees of the former Banca di Roma - London Branch"</b>	<b>6</b>	<b>20<sup>(*)</sup></b>	Defined benefit		
<b>Opening balance as at 12.31.2016</b>				<b>3,962</b>	
Provisions for the year:					
- Interest cost				258	
- Performance of plan assets				(98)	
Benefits paid in the year				(282)	
Exchange rate effect				(138)	
Actuarial (gains)/losses recognised in the year				47	
<b>Balance as at 12.31.2017</b>				<b>3,749</b>	
<b>Present value of the liabilities</b>				<b>10,045</b>	
<b>Present value of plan assets</b>				<b>6,296</b>	
<b>Net Liability as at 12.31.2017</b>				<b>3,749</b>	

Note:

(\*) of which 20 deferred benefit.

<b>"Pension fund for the employees of the London Branch" (ex Credito Italiano)</b>	<b>11</b>	<b>71<sup>(*)</sup></b>	Defined benefit		
<b>Opening balance as at 12.31.2016</b>				<b>7,391</b>	
Provisions for the year:					
- Current service cost (gross)				442	
- Interest cost				944	
- Performance of plan assets				(749)	
Benefits paid in the year				(1,172)	
Exchange rate effects				(259)	
Actuarial (gains)/losses recognised in the year				(2,545)	
<b>Balance as at 12.31.2017</b>				<b>4,052</b>	
<b>Present value of the liabilities</b>				<b>33,256</b>	
<b>Present value of plan assets</b>				<b>29,204</b>	
<b>Net Liability as at 12.31.2017</b>				<b>4,052</b>	

Note:

(\*) of which 66 deferred benefit.

<b>"Pension fund for the employees of Munich Branch"</b>		<b>5<sup>(*)</sup></b>	Defined benefit		
<b>Opening balance as at 12.31.2016</b>				<b>448</b>	
Provisions for the year:					
- Current service cost (gross)				56	
- Interest cost				8	
Employer contributions to plan assets				(228)	
Other increases (decreases)				(34)	
Actuarial (gains)/losses recognised in the year				(35)	
<b>Balance as at 12.31.2017</b>				<b>215</b>	
<b>Present value of the liabilities</b>				<b>444</b>	
<b>Present value of plan assets</b>				<b>228</b>	
<b>Net Liability as at 12.31.2017</b>				<b>216</b>	

Note:

(\*) of which 2 deferred benefit.

# Securitisations - qualitative tables

**ORIGINATOR: UniCredit S.p.A.**

**Traditional securitisations of Performing and Non-Performing loans**

**New transactions 2017**

For the most detailed disclosure on securitisation transactions carried out in 2017 related to the FINO Project (made with the SPVs Fino 1 Securitisation S.r.l., Fino 2 Securitisation S.r.l and ONIF Finance S.r.l.) refer to the informations provided in Part E-Information on risks and hedging policies-Section 1. Credit Risk, at the foot of table "A.1.2 Breakdown of credit exposures by portfolio and credit quality (gross and net values).

NAME:	FINO 1	
Type of securitisation:	Traditional	
Originator:	UniCredit S.p.A./Arena Npl ONE S.r.l.	
Issuer:	FINO 1 Securitisation S.r.l.	
Servicer:	doBank S.p.A. (Master Servicer and Special Servicer)	
Arranger:	Morgan Stanley International Plc - UniCredit Bank AG	
Target transaction:	UniCredit S.p.A. NPL stock reduction	
Type of asset:	Secured and unsecured loans granted to small and medium enterprises and individuals	
Quality of Asset:	Bad loans (sofferenze)	
Closing date:	31 July 2017	
Nominal Value of disposal portfolio (€):	5,376,266,868	
Net amount of pre-existing writedown/writebacks:	890,222,581	
Disposal Profit & Loss realised (€) (*):	-95,911,884	
Portfolio disposal price (€):	794,310,697	
Guarantees issued by the Bank:	No	
Guarantees issued by Third Parties:	No	
Bank Lines of Credit :	No	
Third Parties Lines of Credit (€):	No	
Other Credit Enhancements (€):	No	
Other relevant information:	UniCredit S.p.A. holds a credit exposure (Deferred Subscription Prices - DSPs) towards a group of counterparties guarantor of the investor and deriving from the deferral in payment of 60% of the purchase price of the notes by the investor	
Rating Agencies:	Moody's - DBRS	
Amount of CDS or other supersenior risk transferred:	-	
Amount and Condition of tranching:		
. ISIN	IT0005277311	IT0005277337
. Type of security	Senior	Mezzanine
. Class	A	B
. Rating	A2 - BBB (high) (sf)	Ba3 - BB (high) (sf)
. Quotation	Not listed	Not listed
. Issue date	07.31.2017	07.31.2017
. Legal maturity	October 2045	October 2045
. Call option	not before 07.31.2020	
. Expected duration (years)	2.2	4.1
. Rate	3M Eur + 1.5%	3M Eur + 4%
. Subordinated level	-	SUB A
. Nominal value issued (€)	500,000,000	175,000,000
. Nominal value at the end of accounting period (€)	650,000,000	29,640,000
. Security subscribers	Fortress Italian NPL Opportunities Series Fund LLC Series 6, UniCredit S.p.A.	Fortress Italian NPL Opportunities Series Fund LLC Series 6, UniCredit S.p.A.
. ISIN	IT0005277345	IT0005277352
. Type of security	Mezzanine	Junior
. Class	C	D
. Rating	B1 - BB (sf)	-
. Quotation	Not listed	Not listed
. Issue date	07.31.2017	07.31.2017
. Legal maturity	October 2045	October 2045
. Call option	not before 07.31.2020	
. Expected duration (years)	4.2	6.8
. Rate	3M Eur + 6%	3M Eur + 12%
. Subordinated level	SUB A-B	SUB A-B-C
. Nominal value issued (€)	69,000,000	50,311,000
. Nominal value at the end of accounting period (€)	40,000,000	50,311,000
. Security subscribers	Fortress Italian NPL Opportunities Series Fund LLC Series 6, UniCredit S.p.A.	Fortress Italian NPL Opportunities Series Fund LLC Series 6, UniCredit S.p.A.
<b>Distribution of securitised assets by area (€):</b>		
Italy - Northwest	1,109,050,255	
- Northeast	1,197,299,707	
- Central	1,452,915,904	
- South and Islands	1,617,001,003	
Other European Countries - E.U. countries	-	
- non-E.U. countries	-	
America	-	
Rest of the World	-	
<b>TOTAL</b>	<b>5,376,266,868</b>	
<b>Distribution of securitised assets by business sector of the borrower (€):</b>		
Governments	-	
Other public-sector entities	-	
Banks	-	
Financial Companies	-	
Insurance Companies	-	
Non-financial companies	-	
Other entities	5,376,266,868	
<b>TOTAL</b>	<b>5,376,266,868</b>	

Note:  
(\*) Amount gross of initial transaction's costs.

**ORIGINATOR: UniCredit S.p.A.**

**New transactions 2017**

NAME:	FINO 2	
Type of securitisation:	Traditional	
Originator:	UniCredit S.p.A./Arena Npl ONE S.r.l.	
Issuer:	FINO 2 Securitisation S.r.l.	
Servicer:	doBank S.p.A. (Master Servicer and Special Servicer)	
Arranger:	Morgan Stanley International Plc - UniCredit Bank AG	
Target transaction:	UniCredit S.p.A. NPL stock reduction	
Type of asset:	Secured and unsecured loans granted to small and medium enterprises and individuals	
Quality of Asset:	Bad loans (sofferenze)	
Closing date:	31 July 2017	
Nominal Value of disposal portfolio (€):	7,840,924,572	
Net amount of pre-existing writedown/writebacks:	821,592,350	
Disposal Profit & Loss realised (€) (*):	-181,439,057	
Portfolio disposal price (€):	640,153,293	
Guarantees issued by the Bank:	No	
Guarantees issued by Third Parties:	No	
Bank Lines of Credit:	No	
Third Parties Lines of Credit (€):	No	
Other Credit Enhancements (€):	No	
Other relevant information:	UniCredit S.p.A. holds a credit exposure (Deferred Subscription Prices - DSPs) towards a group of counterparties guarantor of the investor and deriving from the deferment in payment of 60% of the purchase price of the notes by the investor	
Rating Agencies:	No	
Amount of CDS or other supesenior risk transferred:	-	
Amount and Condition of tranching:		
. ISIN	IT0005277378	IT0005277394
. Type of security	Senior	Mezzanine
. Class	A	B
. Rating	-	-
. Quotation	Not listed	Not listed
. Issue date	07.31.2017	07.31.2017
. Legal maturity	October 2045	October 2045
. Call option	-	-
. Expected duration (years)	1.6	3.6
. Rate	3M Eur + 2%	3M Eur + 6%
. Subordinated level	-	SUB A
. Nominal value issued (€)	400,000,000	125,000,000
. Nominal value at the end of accounting period (€)	389,428,000	125,000,000
. Security subscribers	Fortress Italian NPL Opportunities Series Fund LLC Series 6, UniCredit S.p.A.	Fortress Italian NPL Opportunities Series Fund LLC Series 6, UniCredit S.p.A.
. ISIN	IT0005277402	IT0005277410
. Type of security	Mezzanine	Junior
. Class	C	D
. Rating	-	-
. Quotation	Not listed	Not listed
. Issue date	07.31.2017	07.31.2017
. Legal maturity	October 2045	October 2045
. Call option	-	-
. Expected duration (years)	4.3	6.2
. Rate	3M Eur + 8%	3M Eur + 12%
. Subordinated level	SUB A-B	SUB A-B-C
. Nominal value issued (€)	75,600,000	39,554,000
. Nominal value at the end of accounting period (€)	75,600,000	39,554,000
. Security subscribers	Fortress Italian NPL Opportunities Series Fund LLC Series 6, UniCredit S.p.A.	Fortress Italian NPL Opportunities Series Fund LLC Series 6, UniCredit S.p.A.
<b>Distribution of securitised assets by area (€):</b>		
Italy - Northwest	1,729,102,636	
- Northeast	1,439,379,203	
- Central	2,274,552,837	
- South and Islands	2,397,845,326	
Other European Countries - E.U. countries	-	
- non-E.U. countries	-	
America	-	
Rest of the World	-	
<b>TOTAL</b>	<b>7,840,924,572</b>	
<b>Distribution of securitised assets by business sector of the borrower (€):</b>		
Governments	-	
Other public-sector entities	-	
Banks	-	
Financial Companies	-	
Insurance Companies	-	
Non-financial companies	-	
Other entities	7,840,924,572	
<b>TOTAL</b>	<b>7,840,924,572</b>	

**Note:**

(\*) Amount gross of initial transaction's costs

# Securitisations - qualitative tables

**ORIGINATOR: UniCredit S.p.A.**

**New transactions 2017**

NAME:	ONIF	
Type of securitisation:	Traditional	
Originator:	UniCredit S.p.A.	
Issuer:	Onif Finance S.r.l.	
Servicer:	Zenith Service S.p.A. (Master Servicer) - Phoenix Asset Management S.p.A. (Special Servicer)	
Arranger:	Morgan Stanley International Plc - UniCredit Bank AG	
Target transaction:	UniCredit S.p.A. NPL stock reduction	
Type of asset:	Secured and unsecured loans granted to large enterprises	
Quality of Asset:	Bad loans (sofferenze)	
Closing date:	26 July 2017	
Nominal Value of disposal portfolio (€):	2,994,149,412	
Net amount of pre-existing writedown/writebacks:	401,928,516	
Disposal Profit & Loss realised (€) (*):	-84,423,445	
Portfolio disposal price net of Lock Box Cash (€):	317,505,071	
Guarantees issued by the Bank:	No	
Guarantees issued by Third Parties:	No	
Bank Lines of Credit :	2,000,000	
Third Parties Lines of Credit (€):	No	
Other Credit Enhancements (€):	Cash reserve 700,000	
Other relevant information:	UniCredit S.p.A. holds a credit exposure (Deferred Subscription Prices - DSPs) towards a group of counterparties guarantor of the investor and deriving from the deferment in payment of 60% of the purchase price of the notes by the investor	
Rating Agencies:	No	
Amount of CDS or other superior risk transferred:	-	
Amount and Condition of tranching:		
. ISIN	IT0005277014	IT0005277022
. Type of security	Senior	Mezzanine
. Class	A	B
. Rating	-	-
. Quotation	Not listed	Not listed
. Issue date	07.26.2017	07.26.2017
. Legal maturity	October 2042	October 2042
. Call option	-	-
. Expected duration (years)	2.0	4.5
. Rate	2.00%	5.00%
. Subordinated level	-	SUB A
. Nominal value issued (€)	150,000,000	100,000,000
. Nominal value at the end of accounting period (€)	150,000,000	100,000,000
. Security subscribers	Celidoria S.a.r.l., UniCredit S.p.A., GIE Generali Investments Europe SGR S.p.A., Generali Italia S.p.A., Alleanza Assicurazioni S.p.A., Generali Iard Sa, GENERTELLIFE S.p.A., Generali Versicherung AG, Aachen und Muenchener Versicherung AG, Generali VIE Sa, Generali Versicherung AG (A), Generali Espana S.A. de Seguros y Reaseg	
. ISIN	IT0005277030	
. Type of security	Junior	
. Class	C	
. Rating	-	
. Quotation	Not listed	
. Issue date	07.26.2017	
. Legal maturity	October 2042	
. Call option	-	
. Expected duration (years)	6.7	
. Rate	10.00%	
. Subordinated level	SUB A-B	
. Nominal value issued (€)	79,508,000	
. Nominal value at the end of accounting period (€)	79,508,000	
. Security subscribers	Celidoria S.a.r.l., UniCredit S.p.A., GIE Generali Investments Europe SGR Sp.A., Generali Italia S.p.A., Alleanza Assicurazioni S.p.A., Generali Iard Sa, GENERTELLIFE S.p.A., Generali Versicherung AG, Aachen und Muenchener Versicherung AG, Generali VIE Sa, Generali Versicherung AG (A), Generali Espana S.A. de Seguros y Reaseg	
<b>Distribution of securitised assets by area (€):</b>		
Italy - Northwest	778,478,847	
- Northeast	808,420,341	
- Central	838,361,835	
- South and Islands	568,888,388	
Other European Countries - E.U. countries	-	
- non-E.U. countries	-	
America	-	
Rest of the World	-	
<b>TOTAL</b>	<b>2,994,149,412</b>	

continued from previous page

NAME:		ONIF
<b>Distribution of securitised assets by business sector of the borrower (€):</b>		
Governments	-	
Other public-sector entities	-	
Banks	-	
Financial Companies	-	
Insurance Companies	-	
Non-financial companies	2,994,149,412	
Other entities	-	
<b>TOTAL</b>	<b>2,994,149,412</b>	

Note:

(\*) Amount gross of initial transaction's costs

## Securitisations - qualitative tables

ORIGINATOR: UniCredit S.p.A.

## Traditional securitisations of Performing and Non-Performing loans

STRATEGIES, PROCESSES AND GOALS:	<p>The initiatives are a part of the Group's strategies, one of the objectives of which is to finance, at competitive rates (and in large amounts), the development of medium and long-term through the disposal of existing "Performing" and "Non-Performing" loan portfolios and also creating eligible securities for refinancing operations with the ECB and/or with third parties (counterbalancing capacity). The main advantages of the transactions can be summarised as follows:</p> <ul style="list-style-type: none"> <li>- improvement in the matching of asset maturities;</li> <li>- diversification of sources of financing;</li> <li>- broadening of investor base and resulting optimisation of funding cost;</li> <li>- creating counterbalancing capacity.</li> </ul> <p>Moreover, securitisation transactions can also be implemented for purposes related to business projects (for better management of assets), corporate restructuring or deleveraging projects.</p>
INTERNAL MEASUREMENT AND RISK MONITORING SYSTEMS:	<p>UniCredit S.p.A. acts as "Servicer" for almost all transactions concerned for which is Originator. As per the agreements entered into with issuing companies (special purpose vehicles - SPV), servicing consists of performing, on behalf of these companies, administrative, collection and securitised loan collection activities as well as the management of any recovery procedures for impaired loans. Thus, as Servicer, UniCredit S.p.A. is charged with continually tracking cash flows from securitised loans and constantly monitoring their collection, with the assistance of third party companies (especially for the recovery of impaired loans; the company involved is DoBank S.p.A., which operates as an assistant to the Servicer, governed by a special agreement).</p> <p>The Service provides the Special Purpose Vehicle (and other counterparties indicated in the servicing agreements) information on the activity performed by, periodically reports that indicate, among other things, the collection and transfer of the income stream sold, the amount of default positions and recoveries completed, overdue installments, etc., with all information broken down in relation to specific transactions. These reports (which are usually quarterly) are periodically checked (if contractually required) by an auditing firm.</p>
ORGANISATIONAL STRUCTURE AND SYSTEM FOR REPORTING TO SENIOR MANAGEMENT:	<p>From a strategic point of view, Group Finance Department is responsible for central coordination. In this context, the above structure plays:</p> <p>a) in the launch phase of the operation the role of proposer and provides support to the other Bank's Divisions and to the individual Legal Entities in conducting transactions, cooperating with all the other departments (Planning &amp; Capital Management, Group Risk Management, M&amp;A etc.) in identifying the characteristics and the distinctive features of "true sale" securitisations loans in order to achieve the targets set in the Group's Funding Plan and in the Contingency Funding Plan, approved by the Board of Directors, in the ordinary plan of creating counterbalancing capacity, as well as in organisational strategy and business of Top Management. Specific transactions are subject to prior approval by the competent departments of the Holding and of the Originator Bank (during approval, among other things, the structure, costs and impacts in terms of liquidity, counterbalancing capacity, organisational, business and/or any capital relief are discussed and analysed), and to final approval by the Board of Directors of the Originator Bank;</p> <p>b) in the management phase of the operation, the monitoring role of the securitised portfolios performances and any rating action published by Ratings Agencies, the interactions with the Ratings Agencies in order to submit regular information on portfolios and, more generally, the role of coordination of the Originator Bank to facilitate the solution of events relating to the securitised portfolios (management of actions of payments holidays, downgrading, restructurings, etc.).</p> <p>The Bank has established a special coordination unit (GL &amp; securitisation Reporting) within the Accounting &amp; Regulatory Reporting Department. This unit has been tasked with administrative activities connected to the Servicer and Account Bank related-duties, and to carry out these duties, it works in close cooperation with specific, qualified areas of the Bank (Group Risk Management, Group Finance, Group Legal Advice &amp; Contracts, etc.) and the Group (UniCredit Business Integrated Solutions S.C.p.A., etc.). It also provides a technical and operational support to network units.</p> <p>The information regarding the monitoring of collections and the performance of the securitised portfolio is periodically submitted to the Servicer's Board of Directors.</p>
HEDGING POLICIES:	<p>By agreement, securitised portfolios can be protected from interest rate risk by means of the Special Purpose Vehicle entering into Interest Rate Swap (IRS) agreements to hedge a fixed-rate portfolio, and Basis Swaps to hedge an indexed rate portfolio. In connection with these swaps, always if required by agreements, related back-to-back swap contracts are entered into between the Swap counterparty and UniCredit S.p.A. as Originator, interfaced in some cases by UniCredit Bank AG.</p>
OPERATING RESULTS:	<p>At the end of December 2017, the operating results related to existing securitisation transactions essentially reflected the performance of underlying portfolios and the resulting cash flows, and obviously are affected by the amount of defaults and prepayments during the period, which, moreover, are in line with the performance seen in other assets of this kind that are not securitised. The exercise of the option to repurchase the securitised portfolio underlying operation "Consumer Two" did not result in significant additional economic impacts.</p>

**ORIGINATOR: UniCredit S.p.A.**

**Transactions from previous periods**

NAME:	CONSUMER THREE	
Type of securitisation:	Traditional	
Originator:	UniCredit S.p.A.	
Issuer:	Consumer Three S.r.l.	
Servicer:	UniCredit S.p.A.	
Arranger:	UniCredit S.p.A.	
Target transaction:	Funding/Counterbalancing capacity	
Type of asset:	Personal loans	
Quality of Asset:	Performing	
Closing date:	04.20.2016	
Nominal Value of disposal portfolio (€):	4,077,354,013	
Net amount of preexisting writedown/writebacks (€):	4,077,354,013	
Disposal Profit & Loss realised:	-	
Portfolio disposal price (€):	4,096,856,762	
Guarantees issued by the Bank:	-	
Guarantees issued by Third Parties:	-	
Bank Lines of Credit:	-	
Third Parties Lines of Credit:	-	
Other Credit Enhancements:	UniCredit S.p.A. has granted SPV a subordinated loan of €50 million. UniCredit S.p.A. also paid into an eligible entity a cash reserve amount outstanding, at the end of accounting period, for €60.3 million	
Other relevant information:	Self-securitisation	
Rating Agencies:	Moody's/Fitch	
Amount of CDS or other supersenior risk transferred:		
Amount and Condition of tranching:		
. ISIN	IT0005176505	IT0005176513
. Type of security	Senior	Junior
. Class	A	J
. Rating	Aa2/A	Not rated
. Nominal value issued (€)	3,015,000,000	1,062,353,969
. Nominal value at the end of accounting period (€)	3,015,000,000	1,062,353,969

The "Closing date" is the date when the securitisation transaction was completed, i.e. the date when all contractual documents were signed.

## Securitisations - qualitative tables

ORIGINATOR: UniCredit S.p.A.

## Transactions from previous periods

NAME:	LARGE CORPORATE ONE	
Type of securitisation:	Traditional	
Originator:	UniCredit S.p.A.	
Issuer:	Large Corporate ONE S.r.l.	
Servicer:	UniCredit S.p.A.	
Arranger:	-	
Target transaction:	Funding/Counterbalancing capacity	
Type of asset:	Large Corporate Loans	
Quality of Asset:	Performing	
Closing date:	08.13.2013	
Nominal Value of reference portfolio (€):	278,606,012	
Issued guarantees by the Bankm (€):	Senior Notes Guarantee amounting to 304 million	
Issued guarantees by third parties:	-	
Bank Lines of Credit (€):	Interest Shortfall Facility amounting to 12.7 million	
Third Parties Lines of Credit:	-	
Other Credit Enhancements:	-	
Other relevant information:	The credit line of Interest Shortfall Facility, of the original value of €15 million, was used, online capital for €2,341,588	
Rating Agencies:	Standard & Poor's	
Amount of CDS or other risk transferred:	-	
Amount and Condition of tranching:		
. ISIN	IT0004955776	IT0004955479
. Type of security	Senior	Junior
. Class	A	B
. Rating	BBB	-
. Nominal Value Issued (€)	897,000,000	103,000,000
. Reference Position (€)	250,000,000	28,706,800
. Reference Position at the end of accounting period (€)	250,000,000	28,706,800

The "Closing date" is the date when the securitisation transaction was completed, i.e. the date when all contractual documents were signed.



**ORIGINATOR: UniCredit S.p.A. (formerly UniCredit Family Financing Bank S.p.A.)**

**Transactions from previous periods**

<b>NAME:</b>	<b>CORDUSIO RMBS UCFIN - SERIE 2006 (EX CORDUSIO RMBS 3 - UBCASA 1)</b>	
Type of securitisation:	Traditional	
Originator:	UniCredit S.p.A. (ex Banca per la Casa S.p.A.)	
Issuer:	Cordusio RMBS UCFin S.r.l. (ex Cordusio RMBS 3 - UBCasa 1 S.r.l.)	
Servicer:	UniCredit S.p.A.	
Arranger:	UCB AG London Branch	
Target transaction:	Funding/Counterbalancing capacity	
Type of asset:	Private Mortgage Loans	
Quality of Asset:	Performing	
Closing date:	11.16.2006	
Nominal Value of disposal portfolio (€):	2,495,969,428	
Guarantees issued by the Bank:	-	
Guarantees issued by Third Parties:	-	
Bank Lines of Credit:	-	
Third Parties Lines of Credit:	-	
Other Credit Enhancements:	UniCredit S.p.A. has granted SPV a subordinated loan of €14.976 million, which at the end of accounting period is fully reimbursed	
Other relevant information:	Following its downgrade by debt-rating agencies, UniCredit S.p.A. paid €160 million of funds into an eligible entity to maintain its role as an Account Bank; during the year, as a result of the contractual amendment and the contextual outsourcing of the role of the Account Bank, the fund was fully repaid. Moreover UniCredit S.p.A., on 2013, has been replaced as swap counterparty with another Bank rated as eligible by ratings Agencies.	
Rating Agencies:	Fitch/Moody's/Standard & Poor's	
Amount of CDS or other supersenior risk transferred:	-	
Amount and Conditions of tranching:		
. ISIN	IT0004144884	IT0004144892
. Type of security	Senior	Senior
. Class	A1	A2
. Rating	-	AA/Aa2/AA
. Nominal value issued (€)	600,000,000	1,735,000,000
. Nominal value at the end of accounting period (€)	-	344,035,926
. ISIN	IT0004144900	IT0004144934
. Type of security	Mezzanine	Mezzanine
. Class	B	C
. Rating	AA/Aa2/A+	A+/Aa2/A+
. Nominal value issued (€)	75,000,000	25,000,000
. Nominal value at the end of accounting period (€)	75,000,000	25,000,000
. ISIN	IT0004144959	IT0004144967
. Type of security	Mezzanine	Junior
. Class	D	E
. Rating	BBB/Baa1/A+	-
. Nominal value issued (€)	48,000,000	12,969,425
. Nominal value at the end of accounting period (€)	48,000,000	12,969,425

The "Closing date" is the date when the securitisation transaction was completed, i.e. the date when all contractual documents were signed.

# Securitisations - qualitative tables

**ORIGINATOR: UniCredit S.p.A. (formerly UniCredit Family Financing Bank S.p.A., formerly UniCredit Banca S.p.A.)**

## Transactions from previous periods

NAME:	CORDUSIO RMBS SECURITISATION - SERIE 2007		CORDUSIO RMBS SECURITISATION - SERIE 2006 (EX CORDUSIO RMBS 2)	
Type of securitisation:	Traditional		Traditional	
Originator:	UniCredit Banca S.p.A.		UniCredit Banca S.p.A.	
Issuer:	Cordusio RMBS Securitisation S.r.l.		Cordusio RMBS Securitisation S.r.l. (ex Cordusio RMBS 2 S.r.l.)	
Servicer:	UniCredit S.p.A.		UniCredit S.p.A.	
Arranger:	UCB Ag London Branch (ex Bayerische Hypo und Vereinsbank AG, London Branch)		UCB Ag London Branch (ex Bayerische Hypo und Vereinsbank AG, London Branch)	
Target transaction:	Funding/Counterbalancing capacity		Funding/Counterbalancing capacity	
Type of asset:	Private Mortgage Loans		Private Mortgage Loans	
Quality of Asset:	Performing		Performing	
Closing date:	05.22.2007		07.06.2006	
Nominal Value of disposal portfolio (€):	3,908,102,838		2,544,388,351	
Guarantees issued by the Bank:	-		-	
Guarantees issued by Third Parties:	-		-	
Bank Lines of Credit:	-		-	
Third Parties Lines of Credit:	-		-	
Other Credit Enhancements:	UniCredit S.p.A. has granted SPV a subordinated loan of €6.253 million, at the end of accounting period that amount is fully reimbursed		UniCredit S.p.A. has granted SPV a subordinated loan of €6.361 million, at the end of accounting period that amount is fully reimbursed	
Other relevant information:	Following its downgrade by debt-rating agencies, UniCredit S.p.A. paid €236 million of funds into an eligible entity to maintain its role as an Account Bank; during the year, as a result of the contractual amendment and the contextual outsourcing of the role of the Account Bank, the fund was fully repaid. Moreover UniCredit S.p.A. has been replaced as swap counterparty with another Bank rated as eligible by ratings Agencies.		Following its downgrade by debt-rating agencies, UniCredit S.p.A. paid €170 million of funds into an eligible entity to maintain its role as an Account Bank; during the year, as a result of the contractual amendment and the contextual outsourcing of the role of the Account Bank, the fund was fully repaid. Moreover UniCredit S.p.A. has been replaced as swap counterparty with another Bank rated as eligible by ratings Agencies.	
Rating Agencies:	Fitch/Moody's/Standard & Poor's		Fitch/Moody's/Standard & Poor's	
Amount of CDS or other supersenior risk transferred:	-		-	
Amount and Conditions of tranching:				
. ISIN	IT0004231210	IT0004231236	IT0004087158	IT0004087174
. Type of security	Senior	Senior	Senior	Senior
. Class	A1	A2	A1	A2
. Rating	-	-	-	AA/Aa2/AA
. Nominal value issued (€)	703,500,000	2,227,600,000	500,000,000	1,892,000,000
. Nominal value at the end of accounting period (€)	-	-	-	150,273,235
. ISIN	IT0004231244	IT0004231285	IT0004087182	IT0004087190
. Type of security	Senior	Mezzanine	Mezzanine	Mezzanine
. Class	A3	B	B	C
. Rating	A+/Aa2/AA	A+/Aa2/A+	AA/Aa2/A+	BBB+/Ba1/A+
. Nominal value issued (€)	697,518,329	71,100,000	45,700,000	96,000,000
. Nominal value at the end of accounting period (€)	738,600,000	71,100,000	45,700,000	96,000,000
. ISIN	IT0004231293	IT0004231301	IT0004087216	
. Type of security	Mezzanine	Mezzanine	Junior	
. Class	C	D	D	
. Rating	A/Aa3/A+	B/Ba1/BBB	-	
. Nominal value issued (€)	43,800,000	102,000,000	10,688,351	
. Nominal value at the end of accounting period (€)	43,800,000	102,000,000	10,688,351	
. ISIN	IT0004231319	IT0004231327		
. Type of security	Mezzanine	Junior		
. Class	E	F		
. Rating	CCC/Caa1/B-	-		
. Nominal value issued (€)	19,500,000	2,002,838		
. Nominal value at the end of accounting period (€)	19,500,000	2,002,838		

The "Closing date" is the date when the securitisation transaction was completed, i.e. the date when all contractual documents were signed.

**ORIGINATOR: UniCredit S.p.A. (formerly UniCredit Family Financing Bank S.p.A., formerly Bipop-Carire Società per Azioni)**

**Transactions from previous periods**

NAME:	BIPCA CORDUSIO RMBS	
Type of securitisation:	Traditional	
Originator:	UniCredit S.p.A. (ex Bipop Carire, Società per Azioni)	
Issuer:	Capital Mortgage Srl	
Servicer:	UniCredit S.p.A.	
Arranger:	UniCredit S.p.A. (ex Bipop Carire, Società per Azioni)	
Target transaction:	Funding/Counterbalancing capacity	
Type of asset:	Private Mortgage Loans	
Quality of Asset:	Performing	
Closing date:	12.17.2007	
Nominal Value of disposal portfolio (€):	951,664,009	
Guarantees issued by the Bank:	-	
Guarantees issued by Third Parties:	-	
Bank Lines of Credit:	-	
Third Parties Lines of Credit:	-	
Other Credit Enhancements:	UniCredit S.p.A. has granted SPV a subordinated loan of €9.514 million. At the end of accounting period €6.97 million of the principal amount has been repaid	
Other relevant information:	<p>All securities issued outstanding from 31 December 2010 have been retained by UniCredit S.p.A.</p> <p>Following its downgrade by debt-rating agencies, UniCredit S.p.A. paid €59 million of funds into an eligible entity to maintain its role as an Account Bank; during the year, as a result of the contractual amendment and the contextual outsourcing of the role of the Account Bank, the fund was fully repaid.</p> <p>Moreover UniCredit S.p.A. has been replaced as swap counterparty with another Bank rated as eligible by ratings Agencies.</p>	
Rating Agencies:	Standard & Poor's/Moody's	
Amount of CDS or other supersenior risk transferred:	-	
Amount and Conditions of tranching:		
. ISIN	IT0004302730	IT0004302748
. Type of security	Senior	Senior
. Class	A1	A2
. Rating	AA/Aa2	A+/Aa2
. Nominal value issued (€)	666,300,000	185,500,000
. Nominal value at the end of accounting period (€)	43,920,097	185,500,000
. ISIN	IT0004302755	IT0004302763
. Type of security	Mezzanine	Mezzanine
. Class	B	C
. Rating	A+/Aa3	A+/A2
. Nominal value issued (€)	61,800,000	14,300,000
. Nominal value at the end of accounting period (€)	61,800,000	14,300,000
. ISIN	IT0004302797	IT0004302854
. Type of security	Mezzanine	Mezzanine
. Class	D	E
. Rating	BB-/A3	B-/Baa3
. Nominal value issued (€)	18,000,000	5,500,000
. Nominal value at the end of accounting period (€)	18,000,000	5,500,000
. ISIN	IT0004302912	
. Type of security	Junior	
. Class	F	
. Rating	-	
. Nominal value issued (€)	250,000	
. Nominal value at the end of accounting period (€)	250,000	

The "Closing date" is the date when the securitisation transaction was completed, i.e. the date when all contractual documents were signed.

## Securitisations - qualitative tables

**ORIGINATOR: UniCredit S.p.A. (formerly UniCredit Family Financing Bank S.p.A., formerly Banca di Roma S.p.A.)**

Transactions from previous periods

NAME:	CAPITAL MORTGAGE 2007 - 1	
Type of securitisation:	Traditional	
Originator:	UniCredit S.p.A. (ex Banca di Roma S.p.A.)	
Issuer:	Capital Mortgage S.r.l.	
Servicer:	UniCredit S.p.A.	
Arranger:	UCB AG (ex Capitalia S.p.A.)	
Target transaction:	Funding/Counterbalancing capacity	
Type of asset:	Private Mortgage Loans	
Quality of Asset:	Performing	
Closing date:	05.14.2007	
Nominal Value of disposal portfolio (€):	2,183,087,875	
Guarantees issued by the Bank:	-	
Guarantees issued by Third Parties:	-	
Bank Lines of Credit:	-	
Third Parties Lines of Credit:	-	
Other Credit Enhancements:	UniCredit S.p.A. has granted SPV a subordinated loan of €37.19 million (as equity)	
Other relevant information:	Tranching based on an original assets portfolio €2,479.4 million, reduced to €2,183.1 million due to checks after closing date. Following its downgrade by debt-rating agencies, UniCredit S.p.A. paid funds into an eligible entity (amounting to €155.75 million at 31 December 2016) to maintain its role as Account Bank; during the year, as a result of the contractual amendment and the contextual outsourcing of the role of the Account Bank, the fund was fully repaid.	
Rating Agencies:	S & P/Moody's/Fitch	
Amount of CDS or other supersenior risk transferred:	-	
Amount and Conditions of tranching:		
. ISIN	IT0004222532	IT0004222540
. Type of security	Senior	Senior
. Class	A1	A2
. Rating	AA/A3/B+	AA/A3/B+
. Nominal value issued (€)	1,736,000,000	644,000,000
. Nominal value at the end of accounting period (€)	231,115,416	351,825,314
. ISIN	IT0004222557	IT0004222565
. Type of security	Mezzanine	Junior
. Class	B	C
. Rating	BB/B3/CCC	D/Ca/CC
. Nominal value issued (€)	74,000,000	25,350,000
. Nominal value at the end of accounting period (€)	74,000,000	25,350,000

The "Closing date" is the date when the securitisation transaction was completed, i.e. the date when all contractual documents were signed.

**ORIGINATOR: UniCredit S.p.A. (formerly UniCredit Family Financing Bank S.p.A., formerly FinecoBank S.p.A.)**

**Transactions from previous periods**

NAME:	F-E MORTGAGES 2005		F-E MORTGAGES SERIES 1-2003		HELICONUS	
Type of securitisation:	Traditional		Traditional		Traditional	
Originator:	UniCredit S.p.A. (ex FinecoBank S.p.A.)		UniCredit S.p.A. (ex Fineco Banca ICQ S.p.A.)		UniCredit S.p.A. (ex Fineco Banca ICQ S.p.A.)	
Issuer:	F-E Mortgages S.r.l.		F-E Mortgages S.r.l.		Heliconus S.r.l.	
Servicer:	UniCredit S.p.A.		UniCredit S.p.A.		UniCredit S.p.A.	
Arranger:	UniCredit S.p.A. (ex MCC S.p.A. - Capitalia Gruppo Bancario)		UniCredit S.p.A. (ex MCC S.p.A. - Capitalia Gruppo Bancario)		UniCredit S.p.A. (ex MCC S.p.A. - Capitalia Gruppo Bancario)	
Target transaction:	Funding/Counterbalancing capacity		Funding/Counterbalancing capacity		Funding/Counterbalancing capacity	
Type of asset:	Private Mortgage Loans		Private Mortgage Loans		Mortgage Loans	
Quality of Asset:	Performing		Performing		Performing	
Closing date:	04.06.2005		11.27.2003		11.08.2002	
Nominal Value of disposal portfolio (€):	1,028,683,779		748,630,649		408,790,215	
Guarantees issued by the Bank:	-		-		-	
Guarantees issued by Third Parties:	-		-		-	
Bank Lines of Credit:	-		UniCredit S.p.A. issued a credit line for €20 million (jointly with The Royal Bank of Scotland Milan Branch). The amount of line of credit is totally redeemed		UniCredit S.p.A. issued a credit line for €10.220 million. The amount of the credit line is totally redeemed	
Third Parties Lines of Credit:	-		-		-	
Other Credit Enhancements:	UniCredit S.p.A. has granted SPV a subordinated loan of €15.431 million (as Equity). At the end of accounting period the amount of capital tranche is fully reimbursed		-		-	
Other relevant information:	-		Following the downgrade of Royal Bank of Scotland Plc by Moody's, on 3 August 2012 UniCredit S.p.A. made a reserve of €20 million for the SPV, corresponding to the liquidity line		Following its downgrade by Moody's, on 12 January 2012 UniCredit S.p.A. made a reserve of €10.220 million for the SPV, corresponding to the liquidity line	
Rating Agencies:	S & P/Moody's/Fitch		S & P/Moody's/Fitch		S & P/Moody's/Fitch	
Amount of CDS or other supersenior risk transferred:	-		-		-	
Amount and Conditions of tranching:						
. ISIN	IT0003830418	IT0003830426	IT0003575039	IT0003575070	IT0003383855	IT0003383871
. Type of security	Senior	Mezzanine	Senior	Mezzanine	Senior	Mezzanine
. Class	A	B	A1	B	A	B
. Rating	AA/Aa2/AA	A+/Aa2/AA	AA/Aa2/AA	A+/Aa2/AA	AA/Aa2/AA	-/Aa2/AA
. Nominal value issued (€)	951,600,000	41,100,000	682,000,000	48,000,000	369,000,000	30,800,000
. Nominal value at the end of accounting period (€)	110,365,997	36,863,691	32,244,380	48,000,000	14,649,702	30,800,000
. ISIN	IT0003830434		IT0003575088	IT0003575096	IT0003383939	
. Type of security	Junior		Mezzanine	Junior	Junior	
. Class	C		C	D	C	
. Rating	BBB-/Aa3/A+		A+/Baa1/AA	-	-	
. Nominal value issued (€)	36,000,000		11,000,000	7,630,000	8,990,200	
. Nominal value at the end of accounting period (€)	32,289,365		11,000,000	7,630,000	8,990,200	

The "Closing date" is the date when the securitisation transaction was completed, i.e. the date when all contractual documents were signed.

## Securitisations - qualitative tables

**ORIGINATOR: UniCredit S.p.A. (formerly UniCredit Credit Management Bank S.p.A.)**

## Transactions from previous periods

NAME:	ARENA NPL ONE	
Type of securitisation:	Self-securitisation	
Originator:	UniCredit S.p.A. (ex UCCMB S.p.A.)	
Issuer:	Arena NPL S.r.L.	
Servicer:	UniCredit S.p.A.	
Arranger:	UBS	
Target transaction :	Funding	
Type of asset:	Unsecured loans - mortgage loans	
Quality of asset:	Bad loans	
Closing date:	12.04.2014	
Nominal Value of disposal portfolio (€):	8,460,706,273	
Guarantees issued by the Bank:	-	
Guarantees issued by Third Parties:	-	
Bank Lines of Credit:	UniCredit S.p.A. issued a line of Liquidity Facility revolving amounts to €100 million, used for €99.84 million at the end of accounting period	
Third Parties Lines of Credit:	-	
Other Credit Enhancements:	-	
Other relevant information:	UniCredit S.p.A. has granted SPV a loans facility of €30 million, used for legal expenses	
Rating Agencies:	No Rating Agency	
Amount of CDS or other supersenior risk transferred:	-	
Amount and Condition of tranching:		
. ISIN	IT0005070120	IT0005070138
. Type of security	Senior	Junior
. Class	A	B
. Rating	-	-
. Nominal value issued (€)	304,300,000	913,049,310
. Nominal value at the end of accounting period (€)	60,104,391	913,049,310

The "Closing date" is the date when the securitisation transaction was completed, i.e. the date when all contractual documents were signed.

**ORIGINATOR: UniCredit S.p.A.**

**Transactions from previous periods**

STRATEGIES, PROCESSES AND GOALS:	<p>The following initiatives, called Pillarstone Italy, were undertaken to allow the Group to improve the management of loan restructuring, also through the innovative use (for this purpose) of securitisation. The goal is to facilitate and increase recoveries of the exposures under securitisation thanks to:</p> <ul style="list-style-type: none"><li>- restructuring with long-term industrial logic, focusing on introducing new finance (by third parties) in favour of the debtors sold, with focus on concrete needs and opportunities for the companies involved;</li><li>- efficient and targeted restructuring and turnaround processes.</li></ul> <p>Shared acceptance of the economic principles that guide the transactions in question and a strong alignment of the interests between the parties involved, ensures the asset manager's commitment to maximise the value of the said assets, optimising therefore the expected recovery on the junior notes bought by UniCredit S.p.A., through the transferred management of the securitised portfolio.</p>
INTERNAL MEASUREMENT AND RISK MONITORING SYSTEMS:	<p>UniCredit S.p.A. does not act as Servicer. The business of servicing is carried out by third parties outside the Group, as per the contracts stipulated with the Special Purpose Vehicle issuing the ABS securities, and involves the administration, encashment, restructuring and collection of securitised loans, on behalf thereof, as well as managing any recovery proceedings on Non-Performing loans. The Servicer of the assets, therefore, has the task, on an ongoing basis, of following the financial flows arising from the securitised loans, constantly monitoring the encashment, also where appropriate making use of third party companies.</p> <p>For each specific transaction, the Servicer provides the Special Purpose Vehicle (in addition to other counterparties as defined in the servicing contracts, including UniCredit S.p.A.) with information on the activities carried out via periodic reports which show, inter alia, the collection and realisation of the assigned receivables, the number of defaulted positions and the successfully completed recoveries, the instalments in arrears, restructuring activities, etc. Where contractually provided for, these reports are periodically checked by an independent auditors' firm.</p>
ORGANISATIONAL STRUCTURE AND SYSTEM FOR REPORTING TO SENIOR MANAGEMENT:	<p>The Servicer provides UniCredit S.p.A. with a series of reports that enable the evaluation and monitoring of the underlying portfolios. On a quarterly basis the performances are also presented in the reference internal Credit Committees.</p>
HEDGING POLICIES:	<p>There are no risk hedging derivatives.</p>
OPERATING RESULTS:	<p>We are currently implementing a set of monitoring initiatives, focused on one side on the single company performances and, on the other side, on the evolution of the Pillarstone project as a whole.</p>

## Securitisations - qualitative tables

NAME:	PILLARSTONE ITALY - PREMUDA	
Type of securitisation:	Traditional	
Originator:	UniCredit S.p.A.	
Issuer:	Pillarstone Italy SPV S.r.l.	
Servicer:	Securitisation Services S.p.A.	
Arranger:	Not applicable	
Target transaction:	Innovative structure of securitisation to manage and overcome the temporary difficulties of the debtor sold, in order to optimise the reimbursement of the securitised portfolio	
Type of asset:	Corporate loans	
Quality of Asset:	Unlikely to pay	
Closing date:	07.14.2016	
Nominal Value of disposal portfolio:	\$78,220,999.08 + €31,265,398.23	
Net amount of pre-existing writedown/writebacks:	-	
Disposal Profit & Loss realised:	-	
Portfolio disposal price:	\$78,220,999.08 + €31,265,398.23	
Guarantees issued by the Bank:	no	
Guarantees issued by Third Parties:	no	
Bank Lines of Credit :	no	
Third Parties Lines of Credit (€):	7,000,000	
Other Credit Enhancements (€):	no	
Other relevant information:	no	
Rating Agencies:	no	
Amount of CDS or other supersenior risk transferred:	-	
Amount and Condition of tranching:		
. ISIN	IT0005203937	IT0005203952
. Type of security	Senior <sup>(*)</sup>	Mezzanine <sup>(*)</sup>
. Class	A	B
. Rating	Not applicable	Not applicable
. Quotation	Not applicable	Not applicable
. Issue date	07.14.2016	07.14.2016
. Legal maturity	10.20.2030	10.20.2030
. Call option	no	
. Expected duration (years)	5.0	5.0
. Rate	8.50%	2.67%
. Subordinated level	Sub A	
. Nominal value issued	€2,743,000	\$57,663,000
. Nominal value at the end of accounting period	€2,758,000	\$57,663,000
. Security subscribers	Pall Mall Solution ICAV	UniCredit S.p.A.
. ISIN	IT0005246712	IT0005246761
. Type of security	Mezzanine <sup>(*)</sup>	Junior <sup>(*)</sup>
. Class	B	C
. Rating	Not applicable	Not applicable
. Quotation	Not applicable	Not applicable
. Issue date	04.04.2017	04.04.2017
. Legal maturity	10.20.2030	10.20.2030
. Call option	no	
. Expected duration (years)	3.4	3.4
. Rate	3.43%	9.76%
. Subordinated level	Sub A	
. Nominal value issued	€280,000	€2,956,000
. Nominal value at the end of accounting period	€280,000	€2,956,000
. Security subscribers	UniCredit S.p.A.	UniCredit S.p.A.
. ISIN	IT0005204125	IT0005204133
. Type of security	Junior <sup>(*)</sup>	Junior <sup>(*)</sup>
. Class	C	C
. Rating	Not applicable	Not applicable
. Quotation	Not applicable	Not applicable
. Issue date	07.14.2016	07.14.2016
. Legal maturity	10.20.2030	10.20.2030
. Call option	no	
. Expected duration (years)	5.0	5.0
. Rate	9.71%	10.69%
. Subordinated level	Sub A,B	
. Nominal value issued	€25,272,000	\$20,558,000
. Nominal value at the end of accounting period	€25,272,000	\$20,558,000
. Security subscribers	UniCredit S.p.A.	UniCredit S.p.A.

Note:  
 (\*) The classification of the field "Type of security" refers to Banca d'Italia Circular 262 "The Bank's Financial Statements" - Chapter 1 General principles - Section 5 Definitions - 5.23 - Securitisations: senior, mezzanine and junior exposures.

The "Closing date" is the date when the securitisation vehicle has issued the securities of the transaction.



**ORIGINATOR: UniCredit S.p.A.**

**Transactions from previous periods**

NAME:	PILLARSTONE ITALY - BURGO		PILLARSTONE ITALY - COMITAL	
Type of securitisation:	Traditional		Traditional	
Originator:	UniCredit S.p.A.		UniCredit S.p.A.	
Issuer:	Pillarstone Italy SPV S.r.l.		Pillarstone Italy SPV S.r.l.	
Servicer:	Securitisation Services S.p.A.		Securitisation Services S.p.A.	
Arranger:	Not applicable		Not applicable	
Target transaction:	Innovative structure of securitisation to manage and overcome the temporary difficulties of the debtor sold, in order to optimise the reimbursement of the securitised portfolio		Innovative structure of securitisation to manage and overcome the temporary difficulties of the debtor sold, in order to optimise the reimbursement of the securitised portfolio	
Type of asset:	Corporate loans		Corporate loans	
Quality of Asset:	Unlikely to pay		Unlikely to pay	
Closing date:	12.10.2015		12.10.2015	
Nominal Value of disposal portfolio (€):	150,646,763		33,074,000	
Net amount of pre-existing writedown/writebacks:	-		-	
Disposal Profit & Loss realised (€):	-		-	
Portfolio disposal price (€):	150,646,763		33,074,000	
Guarantees issued by the Bank:	No		No	
Guarantees issued by Third Parties:	No		No	
Bank Lines of Credit:	No		No	
Third Parties Lines of Credit (€):	7,000,000		2,500,000	
Other Credit Enhancements (€):	21,998,763		No	
Other relevant information:	Credit Enhancement is represented by the deferred purchase price (DPP), subordinated to the junior security for the payment, of a convertible loan sold to the vehicle		No	
Rating Agencies:	No		No	
Amount of CDS or other supersenior risk transferred:	-		-	
Amount and Condition of tranching:				
. ISIN	IT0005154809	IT0005154825	IT0005152324	IT0005152340
. Type of security	Senior <sup>(*)</sup>	Mezzanine <sup>(*)</sup>	Senior <sup>(*)</sup>	Mezzanine <sup>(*)</sup>
. Class	A	B	A	B
. Rating	-	-	-	-
. Quotation	Not listed	Not listed	Not listed	Not listed
. Issue date	12.10.2015	12.10.2015	12.10.2015	12.10.2015
. Legal maturity	10.20.2030	10.20.2030	10.20.2030	10.20.2030
. Call option	Not applicable		Not applicable	
. Expected duration (years)	5.0	5.0	5.0	5.0
. Rate	8.50%	EUR6M(360) + 200bps	8.50%	EUR6M(360) + 78bps
. Subordinated level	-	Sub A	-	Sub A
. Nominal value issued (€)	5,423,000	103,043,000	810,000	15,396,000
. Nominal value at the end of accounting period (€)	5,423,000	103,043,000	6,894	8,932,431
. Security subscribers	Pall Mall Solutions 1 ICAV	UniCredit S.p.A.	Pall Mall Solutions 1 ICAV	UniCredit S.p.A.
. ISIN	IT0005155251		IT0005152357	
. Type of security	Junior <sup>(*)</sup>		Junior <sup>(*)</sup>	
. Class	C		C	
. Rating	-		-	
. Quotation	Not listed		Not listed	
. Issue date	12.10.2015		12.10.2015	
. Legal maturity	10.20.2030		10.20.2030	
. Call option	No		No	
. Expected duration (years)	5.0		5.0	
. Rate	EUR6M(360)+1000bps		EUR6M(360)+1000bps	
. Subordinated level	Sub A, B		Sub A, B	
. Nominal value issued (€)	20,182,000		16,868,000	
. Nominal value at the end of accounting period (€)	20,182,000		16,868,000	
. Security subscribers	UniCredit S.p.A.		UniCredit S.p.A.	

**Note:**

(\*) The classification of the field "Type of security" refers to Banca d'Italia Circular 262 "The Bank's Financial Statements" - Chapter 1 General principles - Section 5 Definitions - 5.23 - Securitisations: senior, mezzanine and junior exposures.

The "Closing date" is the date when the securitisation vehicle has issued the securities of the transaction.

# Securitisations - qualitative tables

**ORIGINATOR: UniCredit S.p.A.**

## Transactions from previous periods

NAME:	PILLARSTONE ITALY - LEDIBERG		PILLARSTONE ITALY - RAINBOW	
Type of securitisation:	Traditional		Traditional	
Originator:	UniCredit S.p.A.		UniCredit S.p.A.	
Issuer:	Pillarstone Italy SPV S.r.l.		Pillarstone Italy SPV S.r.l.	
Servicer:	Securitisation Services S.p.A.		Securitisation Services S.p.A.	
Arranger:	Not applicable		Not applicable	
Target transaction:	Innovative structure of securitisation to manage and overcome the temporary difficulties of the debtor sold, in order to optimise the reimbursement of the securitised portfolio		Innovative structure of securitisation to manage and overcome the temporary difficulties of the debtor sold, in order to optimise the reimbursement of the securitised portfolio	
Type of asset:	Corporate loans		Corporate loans	
Quality of Asset:	Unlikely to pay		Unlikely to pay	
Closing date:	12.10.2015		12.10.2015	
Nominal Value of disposal portfolio (€):	30,508,000		74,216,000	
Net amount of pre-existing writedown/writebacks:	-		-	
Disposal Profit & Loss realised:	-		-	
Portfolio disposal price (€):	30,508,000		74,216,000	
Guarantees issued by the Bank:	No		No	
Guarantees issued by Third Parties:	No		No	
Bank Lines of Credit:	No		No	
Third Parties Lines of Credit (€):	3,000,000		3,500,000	
Other Credit Enhancements:	-		No	
Other relevant information:	-		No	
Rating Agencies:	No		No	
Amount of CDS or other supersenior risk transferred:	-		-	
Amount and Condition of tranching:				
. ISIN	IT0005154726	IT0005154734	IT0005155833	IT0005155103
. Type of security	Senior <sup>(*)</sup>	Mezzanine <sup>(*)</sup>	Senior <sup>(*)</sup>	Mezzanine <sup>(*)</sup>
. Class	A	B	A	B
. Rating	-	-	-	-
. Quotation	Not listed	Not listed	Not listed	Not listed
. Issue date	12.10.2015	12.10.2015	12.10.2015	12.10.2015
. Legal maturity	10.20.2030	10.20.2030	10.20.2030	10.20.2030
. Call option	Not applicable		Not applicable	
. Expected duration (years)	5.0	5.0	5.0	5.0
. Rate	8.50%	Until 06.30.2016: EUR6M(360) + 25bps From 07.01.2016: EUR6M(360) + 200bps	8.50%	EUR6M(360) + 129bps
. Subordinated level	-	Sub A	-	Sub A
. Nominal value issued (€)	244,000	4,637,000	890,000	16,921,000
. Nominal value at the end of accounting period (€)	244,000	4,637,000	890,000	16,921,000
. Security subscribers	Pall Mall Solutions 1 ICAV	UniCredit S.p.A.	Pall Mall Solutions 1 ICAV	UniCredit S.p.A.
. ISIN	IT0005154759		IT0005155111	
. Type of security	Junior <sup>(*)</sup>		Junior <sup>(*)</sup>	
. Class	C		C	
. Rating	-		-	
. Quotation	Not listed		Not listed	
. Issue date	12.10.2015		12.10.2015	
. Legal maturity	10.20.2030		10.20.2030	
. Call option	Not applicable		Not applicable	
. Expected duration (years)	5.0		5.0	
. Rate	EUR6M(360)+1000bps		EUR6M(360)+1000bps	
. Subordinated level	Sub A, B		Sub A, B	
. Nominal value issued (€)	25,627,000		56,405,000	
. Nominal value at the end of accounting period (€)	25,627,000		56,405,000	
. Security subscribers	UniCredit S.p.A.		UniCredit S.p.A.	

**Note:**  
 (\*) The classification of the field "Type of security" refers to Banca d'Italia Circular 262 "The Bank's Financial Statements" - Chapter 1 General principles - Section 5 Definitions - 5.23 - Securitisations: senior, mezzanine and junior exposures.

The "Closing date" is the date when the securitisation vehicle has issued the securities of the transaction.

**ORIGINATOR: UniCredit S.p.A.**

**New transactions 2017**

NAME:	SANDOKAN	
Type of securitisation:	Traditional	
Originator:	UniCredit S.p.A.	
Issuer:	Yanez S.r.l.	
Servicer:	Securitisation Services S.p.A.	
Arranger:	-	
Target transaction:	Innovative structure of securitisation to manage and overcome the temporary difficulties of the debtors sold, in order to optimise the reimbursement of the securitised portfolio	
Type of asset:	Corporate loans	
Quality of Asset:	Unlikely to pay	
Closing date:	08.02.2017	
Nominal Value of disposal portfolio (€):	860,757,400	
Net amount of pre-existing writedown/writebacks:	-	
Disposal Profit & Loss realised (€):	-	
Portfolio disposal price (€):	860,757,400	
Guarantees issued by the Bank:	No	
Guarantees issued by Third Parties:	No	
Bank Lines of Credit (€):	10,000,000	
Third Parties Lines of Credit (€):	No	
Other Credit Enhancements (€):	No	
Other relevant information:	No	
Rating Agencies:	No	
Amount of CDS or other supersenior risk transferred:	-	
Amount and Condition of tranching:		
. ISIN	IT0005273674	IT0005273666
. Type of security	Senior	Senior
. Class	AS2	AX
. Rating	-	-
. Quotation	Not listed	Not listed
. Issue date	07.31.2017	07.31.2017
. Legal maturity	11.30.2050	11.30.2050
. Call option	-	-
. Expected duration (years)	0.5	0.5
. Rate	4.0%	14.0%
. Subordinated level	-	Sub AS2
. Nominal value issued	1,000	1,000
. Nominal value at the end of accounting period	1,000	1,000
. Security subscribers	Celidoria S.a.r.l./Europa Plus SCA SIF/Banca Finanziaria Internazionale	Banca Finanziaria Internazionale
. ISIN	IT0005273690	IT0005273708
. Type of security	Senior	Senior
. Class	AJ2	B1
. Rating	-	-
. Quotation	Not listed	Not listed
. Issue date	07.31.2017	07.31.2017
. Legal maturity	11.30.2050	11.30.2050
. Call option	-	-
. Expected duration (years)	0.5	3.10
. Rate	14.0%	3.0%
. Subordinated level	Sub AS2, AX	Sub AS2, AX, AJ2
. Nominal value issued	1,000	171,520,000
. Nominal value at the end of accounting period	1,000	171,520,000
. Security subscribers	Celidoria S.a.r.l./Europa Plus SCA SIF	UniCredit S.p.A.
. ISIN	IT0005273724	IT0005273732
. Type of security	Senior	Mezzanine
. Class	B2	C1
. Rating	-	-
. Quotation	Not listed	Not listed
. Issue date	07.31.2017	07.31.2017
. Legal maturity	11.30.2050	11.30.2050
. Call option	-	-
. Expected duration (years)	3	4.70
. Rate	7.5%	3.5%
. Subordinated level	Sub AS2, AX, AJ2, B1	Sub AS2, AX, AJ2, B1, B2
. Nominal value issued	42,880,000	57,360,000
. Nominal value at the end of accounting period	42,880,000	57,360,000
. Security subscribers	Celidoria S.a.r.l./Europa Plus SCA SIF/FR Invest	UniCredit S.p.A.

## Securitisations - qualitative tables

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NAME:	SANDOKAN	
. ISIN	IT0005273740	IT0005273757
. Type of security	Mezzanine	Mezzanine
. Class	C2	D1
. Rating	-	-
. Quotation	Not listed	Not listed
. Issue date	07.31.2017	07.31.2017
. Legal maturity	11.30.2050	11.30.2050
. Call option	-	-
. Expected duration (years)	4.60	7.60
. Rate	15.0%	4.0%
. Subordinated level	Sub AS2, AX, AJ2, B1, B2, C1	Sub AS2, AX, AJ2, B1, B2, C1, C2
. Nominal value issued	14,340,000	126,350,000
. Nominal value at the end of accounting period	14,340,000	126,350,000
. Security subscribers	Celidoria S.a.r.l./Europa Plus SCA SIF/FR Invest	UniCredit S.p.A.
. ISIN	IT0005273773	IT0005273872
. Type of security	Mezzanine	Junior
. Class	D2	E
. Rating	-	-
. Quotation	Not listed	Not listed
. Issue date	07.31.2017	07.31.2017
. Legal maturity	11.30.2050	11.30.2050
. Call option	-	-
. Expected duration (years)	6.80	10.10
. Rate	19.0%	5%
. Subordinated level	Sub AS2, AX, AJ2, B1, B2, C1, C2, D1	Sub AS2, AX, AJ2, B1, B2, C1, C2, D1,
. Nominal value issued	6,650,000	441,654,400
. Nominal value at the end of accounting period	6,650,000	441,654,400
. Security subscribers	Celidoria S.a.r.l./Europa Plus SCA SIF/FR Invest	UniCredit S.p.A.
<b>Distribution of securitised assets by area (€):</b>		
Italy	860,757,400	
Other European Countries - E.U. countries	-	
- non-E.U. countries	-	
America	-	
Rest of the World	-	
<b>TOTAL</b>	<b>860,757,400</b>	
<b>Distribution of securitised assets by business sector of the borrower (€):</b>		
Governments	-	
other governments agencies	-	
Banks	-	
Financial Companies	-	
Insurance Companies	-	
Non-financial companies	860,757,400	
Other entities	-	
<b>TOTAL</b>	<b>860,757,400</b>	

**ORIGINATOR: UniCredit S.p.A. (formerly Capitalia S.p.A., formerly Banca di Roma S.p.A.)**

**Transactions from previous periods**

NAME:	CAESAR FINANCE	
Type of securitisation:	Traditional	
Originator:	Banca di Roma S.p.A	
Issuer:	Caesar Finance S.A.	
Servicer:	Bank of New York	
Arranger:	Donaldson, Lufkin & Jenrette	
Target transaction:	Funding	
Type of asset:	Collateralised Bond Obligation	
Quality of asset:	Performing	
Closing date:	11.05.1999	
Nominal Value of disposal portfolio (€):	360,329,000	
Guarantees issued by the Bank:	-	
Guarantees issued by Third Parties:	-	
Bank Lines of Credit:	-	
Third Parties Lines of Credit:	-	
Other Credit Enhancements:	-	
Other relevant information:	-	
Rating Agencies:	Fitch/Moody's	
Amount of CDS or other supersenior risk transferred:	-	
Amount and Conditions of tranching:		
. ISIN	XS0103928452	XS0103929773
. Type of security	Senior	Junior
. Class	A	B
. Rating	-	-
. Nominal value issued (€)	270,000,000	90,329,000
. Nominal value at the end of accounting period (€)	-	47,380,559

## Securitisations - qualitative tables

## SYNTHETIC TRANSACTIONS

ORIGINATOR: UniCredit S.p.A.

## New transactions 2017

NAME:	BOND ITALIA 5 INV		BOND ITALIA 5 MIX	
Type of securitisation:	Tranched Cover		Tranched Cover	
Originator:	UniCredit S.p.A.		UniCredit S.p.A.	
Issuer:	UniCredit S.p.A.		UniCredit S.p.A.	
Servicer:	UniCredit S.p.A.		UniCredit S.p.A.	
Arranger:	UniCredit S.p.A.		UniCredit S.p.A.	
Target transaction:	Credit risk hedging		Credit risk hedging	
Type of asset:	Unsecured loans - maturity between 24 and 60 months - to small and medium enterprises		Unsecured loans - maturity between 18 and 60 months - to small and medium enterprises	
Quality of Asset:	Performing		Performing	
Closing date:	06.16.2017		06.16.2017	
Nominal Value of reference portfolio (€):	72,447,737		296,985,668	
Issued guarantees by the Bank:	-		-	
Issued guarantees by third parties:	Unfunded financial guarantee hedging the junior risk		Unfunded financial guarantee hedging the junior risk	
Bank Lines of Credit:	-		-	
Third Parties Lines of Credit:	-		-	
Other Credit Enhancements:	-		-	
Other relevant information:	-		-	
Rating Agencies:	No rating agency, use of Supervisory Formula Approach <sup>(*)</sup>		No rating agency, use of Supervisory Formula Approach <sup>(*)</sup>	
Amount and Conditions of tranching:				
. ISIN	Not applicable	Not applicable	Not applicable	Not applicable
. Type of security	Senior	Junior	Senior	Mezzanine
. Class	A	B	A	B
. Rating	-	-	-	-
. Quotation	Not applicable	Not applicable	Not applicable	Not applicable
. Issue date	06.16.2017	06.16.2017	06.16.2017	06.16.2017
. Legal maturity	06.30.2022	06.30.2022	06.30.2022	06.30.2022
. Call option	Not applicable		Not applicable	
. Expected duration	06.30.2022	06.30.2022	06.30.2022	06.30.2022
. Rate	Not applicable	Not applicable	Not applicable	Not applicable
. Subordinated level	-	Sub A	-	Sub A
. Reference Position (€)	67,014,157	5,433,580	278,424,064	18,561,604
. Reference Position at the end of accounting period (€)	62,794,112	5,433,580	248,264,693	18,561,604
. Security subscribers	UniCredit S.p.A.	Partially hedged by protection seller	UniCredit S.p.A.	Partially hedged by protection seller
<b>Distribution of securitised assets by area (€):</b>				
Italy - Northwest	20,749,032		83,987,547	
- Northeast	21,640,139		101,569,098	
- Central	10,562,880		52,714,956	
- South and Islands	19,495,686		58,714,067	
Other European Countries - E.U. countries	-		-	
- non-E.U. countries	-		-	
America	-		-	
Rest of the World	-		-	
<b>TOTAL</b>	<b>72,447,737</b>		<b>296,985,668</b>	
<b>Distribution of securitised assets by business sector of the borrower (€):</b>				
Governments	-		-	
Other public-sector entities	-		-	
Banks	-		-	
Financial Companies	-		-	
Insurance Companies	-		-	
Non-financial companies	72,447,737		296,985,668	
Other entities	-		-	
<b>TOTAL</b>	<b>72,447,737</b>		<b>296,985,668</b>	

## Note:

(\*) Synthetic securitisations carried out using the Supervisory Formula Approach ("Supervisory Formula Approach - SFA") as required by Art.262 of Regulation (EU) No.575/2013 (Capital Requirements Regulation - CRR), and earlier by circular 263/2006 of the Banca d'Italia.

In case of absence of eligible external rating and if PD and LGD estimations can be provided, the CRR (Art.259 1.b)) requires that the calculation of capital requirements for the various tranches of the securitisation shall be performed using the Supervisory formula, in accordance with Art.262, taking care to provide the following five elements:

1. the capital requirement on the securitised assets calculated using the IRB approach (klRB);
2. the level of credit support of the concerned tranche;
3. the thickness of the tranche;
4. the number of securitised assets;
5. the average LGD.

Then, using the Supervisory Formula Approach, it is possible to calculate the risk equivalent amount for a securitisation tranche related to its seniority, granularity, support level and risk of the underlying.

**ORIGINATOR: UniCredit S.p.A.**

**New transactions 2017**

NAME:	SME Initiative 2017	
Type of securitisation:	Tranching Cover	
Originator:	UniCredit S.p.A.	
Issuer:	UniCredit S.p.A.	
Servicer:	UniCredit S.p.A.	
Arranger:	UniCredit S.p.A.	
Target transaction:	Credit risk hedging	
Type of asset:	Pool of UniCredit's SME loans, concentrated in South of Italy for at least 50%	
Quality of Asset:	Performing	
Closing date:	12.22.2017	
Nominal Value of reference portfolio (€):	460,440,633	
Issued guarantees by the Bank:	-	
Issued guarantees by third parties:	Financial guarantee to hedge the mezzanine tranches and the junior tranche in the form of personal guarantee	
Bank Lines of Credit:	-	
Third Parties Lines of Credit:	-	
Other Credit Enhancements:	-	
Other relevant information:	-	
Rating Agencies:	No rating agency, use of Supervisory Formula Approach <sup>(1)</sup>	
Amount and Conditions of tranching:		
. ISIN	Not applicable	Not applicable
. Type of security	Senior	Upper Mezzanine
. Class	A	B1
. Rating	-	-
. Quotation	Not applicable	Not applicable
. Issue date	12.22.2017	12.22.2017
. Legal maturity	11.13.2030	11.13.2030
. Call option	Clean-up call, regulatory call, Time call	
. Expected duration	11.13.2030	11.13.2030
. Rate	Not applicable	Not applicable
. Subordinated level	-	Sub A
. Reference Position (€)	395,040,094	2,369,585
. Reference Position at the end of accounting period (€)	395,040,094	2,369,585
. Security subscribers	UniCredit S.p.A.	Hedged by protection seller
. ISIN	Not applicable	Not applicable
. Type of security	Middle Mezzanine	Lower Mezzanine
. Class	B2	B3
. Rating	-	-
. Quotation	Not applicable	Not applicable
. Issue date	12.22.2017	12.22.2017
. Legal maturity	11.13.2030	11.13.2030
. Call option	Clean-up call, regulatory call, Time call	
. Expected duration	11.13.2030	11.13.2030
. Rate	Not applicable	Not applicable
. Subordinated level	Sub A, B1	Sub A, B1, B2
. Reference Position (€)	473,917	11,847,924
. Reference Position at the end of accounting period (€)	473,917	11,847,924
. Security subscribers	Hedged by protection seller	Hedged by protection seller
. ISIN	Not applicable	Not applicable
. Type of security	Second Loss	Junior
. Class	C	D
. Rating	-	-
. Quotation	Not applicable	Not applicable
. Issue date	12.22.2017	12.22.2017
. Legal maturity	11.13.2030	11.13.2030
. Call option	Clean-up call, regulatory call, Time call	
. Expected duration	11.13.2030	11.13.2030
. Rate	Not applicable	Not applicable
. Subordinated level	Sub A, B1, B2, B3	Sub A, B1, B2, B3, C
. Reference Position (€)	14,217,509	36,491,605
. Reference Position at the end of accounting period (€)	14,217,509	36,491,605
. Security subscribers	UniCredit S.p.A.	Hedged by protection seller
<b>Distribution of securitised assets by area (€):</b>		
Italy - Northwest	52,490,232	
- Northeast	65,843,011	
- Central	61,238,604	
- South and Islands	280,868,786	
Other European Countries - E.U. countries	-	
- non-E.U. countries	-	
America	-	
Rest of the World	-	
<b>TOTAL</b>	<b>460,440,633</b>	

## Securitisations - qualitative tables

continued from previous page

NAME:	SME Initiative 2017	
<b>Distribution of securitised assets by business sector of the borrower (€):</b>		
Governments	-	
Other public-sector entities	-	
Banks	-	
Financial Companies	-	
Insurance Companies	-	
Non-financial companies	460,440,633	
Other entities	-	
<b>TOTAL</b>	<b>460,440,633</b>	

**Note:**

(\*) Synthetic securitisations carried out using the Supervisory Formula Approach ("Supervisory Formula Approach - SFA") as required by Art.262 of Regulation (EU) No.575/2013 (Capital Requirements Regulation - CRR), and earlier by circular 263/2006 of the Banca d'Italia.

In case of absence of eligible external rating and if PD and LGD estimations can be provided, the CRR (Art.259 1.b)) requires that the calculation of capital requirements for the various tranches of the securitisation shall be performed using the Supervisory formula, in accordance with Art.262, taking care to provide the following five elements:

1. the capital requirement on the securitised assets calculated using the IRB approach (klRB);
2. the level of credit support of the concerned tranche;
3. the thickness of the tranche;
4. the number of securitised assets;
5. the average LGD.

Then, using the Supervisory Formula Approach, it is possible to calculate the risk equivalent amount for a securitisation tranche related to its seniority, granularity, support level and risk of the underlying.



**ORIGINATOR: UniCredit S.p.A.**

**New transactions 2017**

NAME:	Finpiemonte 2016		FILSEC 2016	
Type of securitisation:	Tranché Cover		Tranché Cover	
Originator:	UniCredit S.p.A.		UniCredit S.p.A.	
Issuer:	UniCredit S.p.A.		UniCredit S.p.A.	
Servicer:	UniCredit S.p.A.		UniCredit S.p.A.	
Arranger:	UniCredit S.p.A.		UniCredit S.p.A.	
Target transaction:	Credit risk hedging		Credit risk hedging	
Type of asset:	Unsecured loans - maturity between 18 and 60 months - to small and medium enterprises located in Piemonte		Unsecured loans - maturity between 18 and 60 months - to small and medium enterprises located in Liguria	
Quality of Asset:	Performing		Performing	
Closing date:	10.31.2017		10.31.2017	
Nominal Value of reference portfolio (€):	58.000.000		28.000.000	
Issued guarantees by the Bank:				
Issued guarantees by third parties:	Funded cash collateralised financial guarantee partially hedging the junior risk		Funded cash collateralised financial guarantee partially hedging the junior risk	
Bank Lines of Credit:	-		-	
Third Parties Lines of Credit:	-		-	
Other Credit Enhancements:	-		-	
Other relevant information:	-		-	
Rating Agencies:	No rating agency, use of Supervisory Formula Approach <sup>(*)</sup>		No rating agency, use of Supervisory Formula Approach <sup>(*)</sup>	
Amount and Conditions of tranching:				
. ISIN	Not applicable	Not applicable	Not applicable	Not applicable
. Type of security	Senior	Junior	Senior	Mezzanine
. Class	A	B	A	B
. Rating	-	-	-	-
. Quotation	Not listed	Not listed	Not listed	Not listed
. Issue date	10.31.2017	10.31.2017	06.16.2017	06.16.2017
. Legal maturity	12.31.2021	12.31.2021	12.31.2021	12.31.2021
. Call option	Not applicable		Not applicable	
. Expected duration	12.31.2021	12.31.2021	12.31.2021	12.31.2021
. Rate	Not applicable	Not applicable	Not applicable	Not applicable
. Subordinated level	-	Sub A	-	Sub A
. Reference Position (€)	50.750.000	7.250.000	24.500.000	3.500.000
. Reference Position at the end of accounting period (€)	31.762.318	7.250.000	13.991.670	3.500.000
. Security subscribers	UniCredit S.p.A.	Partially hedged by protection seller	UniCredit S.p.A.	Partially hedged by protection seller
<b>Distribution of securitised assets by area (€):</b>				
Italy - Northwest	58.000.000		28.000.000	
- Northeast	-		-	
- Central	-		-	
- South and Islands	-		-	
Other European Countries - E.U. countries	-		-	
- non-E.U. countries	-		-	
America	-		-	
Rest of the World	-		-	
<b>TOTAL</b>	<b>58.000.000</b>		<b>28.000.000</b>	
<b>Distribution of securitised assets by business sector of the borrower (€):</b>				
Governments	-		-	
Other public-sector entities	-		-	
Banks	-		-	
Financial Companies	-		-	
Insurance Companies	-		-	
Non-financial companies	58.000.000		28.000.000	
Other entities	-		-	
<b>TOTAL</b>	<b>58.000.000</b>		<b>28.000.000</b>	

**Note:**

(\*) Synthetic securitisations carried out using the Supervisory Formula Approach ("Supervisory Formula Approach - SFA") as required by Art.262 of Regulation (EU) No.575/2013 (Capital Requirements Regulation - CRR), and earlier by circular 263/2006 of the Banca d'Italia.

In case of absence of eligible external rating and if PD and LGD estimations can be provided, the CRR (Art.259 1.b) requires that the calculation of capital requirements for the various tranches of the securitisation shall be performed using the Supervisory formula, in accordance with Art.262, taking care to provide the following five elements:

1. the capital requirement on the securitised assets calculated using the IRB approach (kIRB);
2. the level of credit support of the concerned tranche;
3. the thickness of the tranche;
4. the number of securitised assets;
5. the average LGD.

Then, using the Supervisory Formula Approach, it is possible to calculate the risk equivalent amount for a securitisation tranche related to its seniority, granularity, support level and risk of the underlying.

# Securitisations - qualitative tables

**ORIGINATOR: UniCredit S.p.A.**

## Transactions from previous periods

NAME:	ARTS MIDCAP4		AGRIBOND	
Type of securitisation:	Tranché Cover		Tranché Cover	
Originator:	UniCredit S.p.A.		UniCredit S.p.A.	
Issuer:	UniCredit S.p.A.		UniCredit S.p.A.	
Servicer:	UniCredit S.p.A.		UniCredit S.p.A.	
Arranger:	UniCreditBank A.G.		UniCreditBank A.G.	
Target transaction:	Credit risk hedging		Credit risk hedging	
Type of asset:	Loans to Small and Mid Corporate		Unsecured loans - maturity 72 months - to small and medium enterprises pertaining to the agriculture sector	
Quality of Asset:	Performing		Performing	
Closing date:	06.21.2016		06.30.2015	
Nominal Value of reference portfolio (€):	2,258,505,513		172,000,000	
Issued guarantees by the Bank:	-		-	
Issued guarantees by third parties:	Funded cash collateralised financial guarantee hedging the junior risk		Unfunded financial guarantee hedging the junior risk	
Bank Lines of Credit:	-		-	
Third Parties Lines of Credit:	-		-	
Other Credit Enhancements:	-		-	
Other relevant information:	-		-	
Rating Agencies:	No rating agency, use of Supervisory Formula Approach <sup>(*)</sup>		No rating agency, use of Supervisory Formula Approach <sup>(*)</sup>	
Amount and Conditions of tranching:				
. ISIN	Not applicable	Not applicable	Not applicable	Not applicable
. Type of security	Senior	Junior	Senior	Junior
. Class	A	B	A	B
. Rating	n.r.	n.r.	n.r.	n.r.
. Quotation	Not applicable	Not applicable	Not applicable	Not applicable
. Issue date	06.21.2016	06.21.2016	06.30.2015	06.30.2015
. Legal maturity	01.31.2036	01.31.2036	12.31.2022	12.31.2022
. Call option	Clean-up call, Regulatory Call, Time call		-	
. Expected duration (years)	WAL 3,8Y; time call after 5Y; regulatory call expected Mar 2024	WAL 3,8Y; time call after 5Y; regulatory call expected Mar 2024	12.31.2022	12.31.2022
. Rate	Not applicable	Not applicable	Not applicable	Not applicable
. Subordinated level	-	Sub A	-	-
. Reference Position (€)	2,145,505,513	113,000,000	161,256,654	10,743,346
. Reference Position at the end of accounting period (€)	1,472,060,142	112,891,208	95,523,103	10,743,346
. Security subscribers	UniCredit S.p.A.	Hedged by protection seller	UniCredit S.p.A.	Partially hedged by protection seller

**Note:**  
 (\*) Synthetic securitisations carried out using the Supervisory Formula Approach ("Supervisory Formula Approach - SFA") as required by Art.262 of Regulation (EU) No.575/2013 (Capital Requirements Regulation - CRR), and earlier by circular 263/2006 of the Banca d'Italia.  
 In case of absence of eligible external rating and if PD and LGD estimations can be provided, the CRR (Art.259 1.b)) requires that the calculation of capital requirements for the various tranches of the securitisation shall be performed using the Supervisory formula, in accordance with Art.262, taking care to provide the following five elements:  
 1. the capital requirement on the securitised assets calculated using the IRB approach (kiRB);  
 2. the level of credit support of the concerned tranche;  
 3. the thickness of the tranche;  
 4. the number of securitised assets;  
 5. the average LGD.  
 Then, using the Supervisory Formula Approach, it is possible to calculate the risk equivalent amount for a securitisation tranche related to its seniority, granularity, support level and risk of the underlying.

**ORIGINATOR: UniCredit S.p.A.**

**Transactions from previous periods**

NAME:	BOND ITALIA 3 INVESTIMENTI		BOND ITALIA3 MISTO	
Type of securitisation:	Tranché Cover		Tranché Cover	
Originator:	UniCredit S.p.A.		UniCredit S.p.A.	
Issuer:	UniCredit S.p.A.		UniCredit S.p.A.	
Servicer:	UniCredit S.p.A.		UniCredit S.p.A.	
Arranger:	UniCredit S.p.A.		UniCreditBank A.G.	
Target transaction:	Credit risk hedging		Credit risk hedging	
Type of asset:	Unsecured loans - maturity between 24 and 60 months - to small and medium enterprises		Unsecured loans - maturity between 18 and 60 months - to small and medium enterprises	
Quality of Asset:	Performing		Performing	
Closing date:	05.14.2016		05.14.2016	
Nominal Value of reference portfolio (€):	99,037,451		166,024,432	
Issued guarantees by the Bank:	-		-	
Issued guarantees by third parties:	Unfunded financial guarantee hedging the junior risk		Unfunded financial guarantee hedging the junior risk	
Bank Lines of Credit:	-		-	
Third Parties Lines of Credit:	-		-	
Other Credit Enhancements:	-		-	
Other relevant information:	-		-	
Rating Agencies:	No rating agency, use of Standardised Approach <sup>(*)</sup>		No rating agency, use of Standardised Approach <sup>(*)</sup>	
Amount and Conditions of tranching:				
. ISIN	Not applicable	Not applicable	Not applicable	Not applicable
. Type of security	Senior	Junior	Senior	Junior
. Class	-	-	-	-
. Rating	Not rated	Not rated	Not rated	Not rated
. Quotation	Not applicable	Not applicable	Not applicable	Not applicable
. Issue date	05.14.2016	05.14.2016	05.14.2016	05.14.2016
. Legal maturity	02.28.2022	02.28.2022	02.28.2021	02.28.2021
. Call option	Not applicable		Not applicable	
. Expected duration (years)	02.28.2022	02.28.2022	02.28.2021	02.28.2021
. Rate	Not applicable	Not applicable	Not applicable	Not applicable
. Subordinated level	-	-	-	-
. Reference Position (€)	91,609,642	7,427,809	155,647,905	10,376,527
. Reference Position at the end of accounting period (€)	55,164,525	7,077,809	22,793,007	10,376,527
. Security subscribers	UniCredit S.p.A.	Partially hedged by protection seller	UniCredit S.p.A.	Partially hedged by protection seller

**Note:**

(\*) Synthetic securitisations carried out using the Supervisory Formula Approach ("Supervisory Formula Approach - SFA") as required by Art.262 of Regulation (EU) No.575/2013 (Capital Requirements Regulation - CRR), and earlier by circular 263/2006 of the Banca d'Italia.

In case of absence of eligible external rating and if PD and LGD estimations can be provided, the CRR (Art.259 1.b) requires that the calculation of capital requirements for the various tranches of the securitisation shall be performed using the Supervisory formula, in accordance with Art.262, taking care to provide the following five elements:

1. the capital requirement on the securitised assets calculated using the IRB approach (kIRB);
2. the level of credit support of the concerned tranche;
3. the thickness of the tranche;
4. the number of securitised assets;
5. the average LGD.

Then, using the Supervisory Formula Approach, it is possible to calculate the risk equivalent amount for a securitisation tranche related to its seniority, granularity, support level and risk of the underlying.

# Securitisations - qualitative tables

**ORIGINATOR: UniCredit S.p.A.**

## Transactions from previous periods

NAME:	BOND ITALIA4 MISTO		ARTS MIDCAP5	
Type of securitisation:	Tranché Cover		Tranché Cover	
Originator:	UniCredit S.p.A.		UniCredit S.p.A.	
Issuer:	UniCredit S.p.A.		UniCredit S.p.A.	
Servicer:	UniCredit S.p.A.		UniCredit S.p.A.	
Arranger:	UniCreditBank A.G.		UniCreditBank A.G.	
Target transaction:	Credit risk hedging		Credit risk hedging	
Type of asset:	Unsecured loans - maturity between 18 and 60 months - to small and medium enterprises		Loans to Mid - Corporate	
Quality of Asset:	Performing		Performing	
Closing date:	12.07.2016		12.02.2016	
Nominal Value of reference portfolio (€):	299,997,840		2,462,951,367	
Issued guarantees by the Bank:	-		-	
Issued guarantees by third parties:	Unfunded financial guarantee hedging the junior risk		Funded cash collateralised financial guarantee hedging the junior risk	
Bank Lines of Credit:	-		-	
Third Parties Lines of Credit:	-		-	
Other Credit Enhancements:	-		-	
Other relevant information:	-		-	
Rating Agencies:	No rating agency, use of SFA Approach <sup>(*)</sup>		No rating agency, use of Standardised Approach <sup>(*)</sup>	
<b>Amount and Conditions of tranching:</b>				
. ISIN	Not applicable	Not applicable	Not applicable	Not applicable
. Type of security	Senior	Junior	Senior	Junior
. Class	A	B	A	B
. Rating	Not rated	Not rated	Not rated	Not rated
. Quotation	Not applicable	Not applicable	Not applicable	Not applicable
. Issue date	12.07.2016	12.07.2016	12.02.2016	12.02.2016
. Legal maturity	06.30.2023	06.30.2023	12.31.2046	12.31.2046
. Call option	Not applicable		Clean-up call, Regulatory Call, Time call	
. Expected duration (years)	06.30.2023	06.30.2023	WAL 3,58Y; time call after 5Y; regulatory call expected Dec 2023	WAL 3,58Y; time call after 5Y; regulatory call expected Dec 2023
. Rate	Not applicable	Not applicable	Not applicable	Not applicable
. Subordinated level	-	Sub A	-	Sub A
. Reference Position (€)	281,247,975	18,749,865	2,339,951,367	123,000,000
. Reference Position at the end of accounting period (€)	240,576,446	18,749,865	1,669,360,268	123,000,000
. Security subscribers	UniCredit S.p.A.	Partially hedged by protection seller	UniCredit S.p.A.	Hedged by protection seller

**Note:**

(\*) Synthetic securitisations carried out using the Supervisory Formula Approach ("Supervisory Formula Approach - SFA") as required by Art.262 of Regulation (EU) No.575/2013 (Capital Requirements Regulation - CRR), and earlier by circular 263/2006 of the Banca d'Italia.

In case of absence of eligible external rating and if PD and LGD estimations can be provided, the CRR (Art.259 1.b)) requires that the calculation of capital requirements for the various tranches of the securitisation shall be performed using the Supervisory formula, in accordance with Art.262, taking care to provide the following five elements:

1. the capital requirement on the securitised assets calculated using the IRB approach (klRB);
2. the level of credit support of the concerned tranche;
3. the thickness of the tranche;
4. the number of securitised assets;
5. the average LGD.

Then, using the Supervisory Formula Approach, it is possible to calculate the risk equivalent amount for a securitisation tranche related to its seniority, granularity, support level and risk of the underlying.

**ORIGINATOR: UniCredit S.p.A.**

**Transactions from previous periods**

NAME:	SARDAFIDI		BOND ITALIA4 INVESTIMENTI	
Type of securitisation:	Tranché Cover		Tranché Cover	
Originator:	UniCredit S.p.A.		UniCredit S.p.A.	
Issuer:	UniCredit S.p.A.		UniCredit S.p.A.	
Servicer:	UniCredit S.p.A.		UniCredit S.p.A.	
Arranger:	UniCreditBank A.G.		UniCredit S.p.A.	
Target transaction:	Credit risk hedging		Credit risk hedging	
Type of asset:	Unsecured loans to small and medium enterprises in the region Sardinia, originated with the purpose of financing working capitale and/or investments		Unsecured loans - maturity between 24 and 60 months - to small and medium enterprises	
Quality of Asset:	Performing		Performing	
Closing date:	10.15.2015		12.07.2016	
Nominal Value of reference portfolio (€):	14,472,615		99,999,355	
Issued guarantees by the Bank:	-		-	
Issued guarantees by third parties:	Funded cash collateralised financial guarantee hedging the junior risk		Unfunded financial guarantee hedging the junior risk	
Bank Lines of Credit:	-		-	
Third Parties Lines of Credit:	-		-	
Other Credit Enhancements:	-		-	
Other relevant information:	-		-	
Rating Agencies:	No rating agency, use of Supervisory Formula Approach <sup>(*)</sup>		No rating agency, use of Supervisory Formula Approach <sup>(*)</sup>	
Amount and Conditions of tranching:				
. ISIN	Not applicable	Not applicable	Not applicable	Not applicable
. Type of security	Senior	Junior	Senior	Junior
. Class	A	B	A	B
. Rating	Not rated	Not rated	Not rated	Not rated
. Quotation	Not applicable	Not applicable	Not applicable	Not applicable
. Issue date	10.15.2016	10.15.2016	12.07.2016	12.07.2016
. Legal maturity	06.30.2021	06.30.2021	06.30.2023	06.30.2023
. Call option	Not applicable		Not applicable	
. Expected duration (years)	06.30.2021	06.30.2021	06.30.2023	06.30.2023
. Rate	Not applicable	Not applicable	Not applicable	Not applicable
. Subordinated level	-	-	-	Sub A
. Reference Position (€)	13,186,160	1,286,455	92,499,404	7,499,951
. Reference Position at the end of accounting period (€)	3,718,543	1,286,455	86,479,060	7,499,951
. Security subscribers	UniCredit S.p.A.	Partially hedged by protection seller	UniCredit S.p.A.	Partially hedged by protection seller

**Note:**

(\*) Synthetic securitisations carried out using the Supervisory Formula Approach ("Supervisory Formula Approach - SFA") as required by Art.262 of Regulation (EU) No.575/2013 (Capital Requirements Regulation - CRR), and earlier by circular 263/2006 of the Banca d'Italia.

In case of absence of eligible external rating and if PD and LGD estimations can be provided, the CRR (Art.259 1.b)) requires that the calculation of capital requirements for the various tranches of the securitisation shall be performed using the Supervisory formula, in accordance with Art.262, taking care to provide the following five elements:

1. the capital requirement on the securitised assets calculated using the IRB approach (kIRB);
2. the level of credit support of the concerned tranche;
3. the thickness of the tranche;
4. the number of securitised assets;
5. the average LGD.

Then, using the Supervisory Formula Approach, it is possible to calculate the risk equivalent amount for a securitisation tranche related to its seniority, granularity, support level and risk of the underlying.

# Securitisations - qualitative tables

**ORIGINATOR: UniCredit S.p.A.**

## Transactions from previous periods

NAME:	GEPAFIN		ARTS MIDCAP2	
Type of securitisation:	Tranché Cover		Tranché Cover	
Originator:	UniCredit S.p.A.		UniCredit S.p.A.	
Issuer:	UniCredit S.p.A.		UniCredit S.p.A.	
Servicer:	UniCredit S.p.A.		UniCredit S.p.A.	
Arranger:	UniCredit S.p.A.		UniCreditBank A.G.	
Target transaction:	Credit risk hedging		Credit risk hedging	
Type of asset:	Unsecured loans with maturity > 18 months, to corporate clients settled in Umbria		Underlying pool of loans to small and mid corporates	
Quality of Asset:	Performing		Performing	
Closing date:	03.09.2015		06.12.2015	
Nominal Value of reference portfolio (€):	7,473,980		1,618,022,277	
Issued guarantees by the Bank:	-		-	
Issued guarantees by third parties:	Funded cash collateralised financial guarantee hedging the junior risk		Funded cash collateralised financial guarantee hedging the junior risk; unfunded financial guarantee hedging the mezzanine risk	
Bank Lines of Credit:	-		-	
Third Parties Lines of Credit:	-		-	
Other Credit Enhancements:	-		-	
Other relevant information:	-		-	
Rating Agencies:	No rating agency, use of Supervisory Formula Approach <sup>(*)</sup>		No rating agency, use of Supervisory Formula Approach <sup>(*)</sup>	
Amount and Conditions of tranching:				
. ISIN	Not applicable	Not applicable	Not applicable	Not applicable
. Type of security	Senior	Junior	Senior	Mezzanine
. Class	A	B	A	B
. Rating	-	-	-	-
. Quotation	Not applicable	Not applicable	Not applicable	Not applicable
. Issue date	03.09.2015	03.09.2015	06.12.2015	06.12.2015
. Legal maturity	12.31.2019	12.31.2019	12.31.2026	12.31.2026
. Call option	Not applicable		Clean-up call, regulatory call	
. Expected duration	12.31.2019	12.31.2019	WAL 2.7 regulatory call expected Sep 2019	WAL 2.7 regulatory call expected Sep 2019
. Rate	Not applicable	Not applicable	Not applicable	Not applicable
. Subordinated level	-	Sub A	-	Sub A
. Reference Position (€)	6,772,921	701,059	1,504,772,277	32,350,000
. Reference Position at the end of accounting period (€)	-	353,857	451,014,623	32,350,000
. Security subscribers	UniCredit S.p.A.	Partially hedged by protection seller	UniCredit S.p.A.	Hedged by protection seller
. ISIN			Not applicable	
. Type of security			Junior	
. Class			C	
. Rating			-	
. Quotation			Not listed	
. Issue date			06.12.2015	
. Legal maturity			12.31.2026	
. Rate			Not applicable	
. Subordinated level			Sub A, B	
. Reference Position (€)			80,900,000	
. Reference Position at the end of accounting period (€)			80,752,996	
. Security subscribers			Hedged by protection seller	

**Note:**  
 (\*) Synthetic securitisations carried out using the Supervisory Formula Approach ("Supervisory Formula Approach - SFA") as required by Art.262 of Regulation (EU) No.575/2013 (Capital Requirements Regulation - CRR), and earlier by circular 263/2006 of the Banca d'Italia.

In case of absence of eligible external rating and if PD and LGD estimations can be provided, the CRR (Art.259 1.b) requires that the calculation of capital requirements for the various tranches of the securitisation shall be performed using the Supervisory formula, in accordance with Art.262, taking care to provide the following five elements:

1. the capital requirement on the securitised assets calculated using the IRB approach (kIRB);
2. the level of credit support of the concerned tranche;
3. the thickness of the tranche;
4. the number of securitised assets;
5. the average LGD.

Then, using the Supervisory Formula Approach, it is possible to calculate the risk equivalent amount for a securitisation tranche related to its seniority, granularity, support level and risk of the underlying.

**ORIGINATOR: UniCredit S.p.A.**

**Transactions from previous periods**

NAME:	ARTS LEONARDO		BOND ITALIA1 INVESTIMENTI	
Type of securitisation:	Tranched Cover		Tranched Cover	
Originator:	UniCredit S.p.A.		UniCredit S.p.A.	
Issuer:	ARTS LEONARDO 2015-1 S.A.		UniCredit S.p.A.	
Servicer:	UniCredit S.p.A.		UniCredit S.p.A.	
Arranger:	UniCreditBank A.G.		UniCredit S.p.A.	
Target transaction:	Credit risk hedging		Credit risk hedging	
Type of asset:	Project financing Loans and Shipping		Unsecured loans - maturity between 24 and 60 months - to small and medium enterprises	
Quality of Asset:	Performing		Performing	
Closing date:	06.26.2015		06.30.2015	
Nominal Value of reference portfolio (€):	1,519,889,561		93,593,038	
Issued guarantees by the Bank:	-		-	
Issued guarantees by third parties:	Funded cash collateralised financial guarantee hedging the junior risk		Unfunded financial guarantee hedging the junior risk	
Bank Lines of Credit:	-		-	
Third Parties Lines of Credit:	-		-	
Other Credit Enhancements:	-		-	
Other relevant information:	-		-	
Rating Agencies:	No rating agency, use of Supervisory Formula Approach <sup>(*)</sup>		No rating agency, use of Supervisory Formula Approach <sup>(*)</sup>	
Amount and Conditions of tranching:				
. ISIN	Not applicable	Not applicable	Not applicable	Not applicable
. Type of security	Senior	Junior	Senior	Junior
. Class	A	B	A	B
. Rating	-	-	-	-
. Quotation	Not applicable	Not applicable	Not applicable	Not applicable
. Issue date	06.26.2015	06.26.2015	06.30.2015	06.30.2015
. Legal maturity	2040	2040	02.28.2025	02.28.2025
. Call option	Clean-up call, regulatory call		Not applicable	
. Expected duration	2021	2021	02.28.2025	02.28.2025
. Rate	Not applicable	Not applicable	Not applicable	Not applicable
. Subordinated level	-	Sub A	-	Sub A
. Reference Position (€)	1,413,497,292	106,392,269	86,573,560	7,019,478
. Reference Position at the end of accounting period (€)	823,600,618	99,853,166	48,210,669	6,769,478
. Security subscribers	UniCredit S.p.A.	Hedged by protection seller	UniCredit S.p.A.	Partially hedged by protection seller

**Note:**

(\*) Synthetic securitisations carried out using the Supervisory Formula Approach ("Supervisory Formula Approach - SFA") as required by Art.262 of Regulation (EU) No.575/2013 (Capital Requirements Regulation - CRR), and earlier by circular 263/2006 of the Banca d'Italia. In case of absence of eligible external rating and if PD and LGD estimations can be provided, the CRR (Art.259 1.b)) requires that the calculation of capital requirements for the various tranches of the securitisation shall be performed using the Supervisory formula, in accordance with Art.262, taking care to provide the following five elements:

1. the capital requirement on the securitised assets calculated using the IRB approach (kIRB);
2. the level of credit support of the concerned tranche;
3. the thickness of the tranche;
4. the number of securitised assets;
5. the average LGD.

Then, using the Supervisory Formula Approach, it is possible to calculate the risk equivalent amount for a securitisation tranche related to its seniority, granularity, support level and risk of the underlying.

## Securitisations - qualitative tables

**ORIGINATOR: UniCredit S.p.A.**

### Transactions from previous periods

NAME:	BOND ITALIA1 MISTO		BOND ITALIA2 MISTO	
Type of securitisation:	Tranched Cover		Tranched Cover	
Originator:	UniCredit S.p.A.		UniCredit S.p.A.	
Issuer:	UniCredit S.p.A.		UniCredit S.p.A.	
Servicer:	UniCredit S.p.A.		UniCredit S.p.A.	
Arranger:	UniCredit S.p.A.		UniCredit S.p.A.	
Target transaction:	Credit risk hedging		Credit risk hedging	
Type of asset:	Unsecured loans - maturity between 18 and 60 months - to small and medium enterprises		Unsecured loans - maturity between 18 and 60 months - to small and medium enterprises	
Quality of Asset:	Performing		Performing	
Closing date:	06.30.2015		12.31.2015	
Nominal Value of reference portfolio (€):	295,689,323		299,780,540	
Issued guarantees by the Bank:	-		-	
Issued guarantees by third parties:	Unfunded financial guarantee hedging the junior risk		Unfunded financial guarantee hedging the junior risk	
Bank Lines of Credit:	-		-	
Third Parties Lines of Credit:	-		-	
Other Credit Enhancements:	-		-	
Other relevant information:	-		-	
Rating Agencies:	No rating agency, use of Supervisory Formula Approach <sup>(*)</sup>		No rating agency, use of Supervisory Formula Approach <sup>(*)</sup>	
Amount and Conditions of tranching:				
. ISIN	Not applicable	Not applicable	Not applicable	Not applicable
. Type of security	Senior	Junior	Senior	Junior
. Class	A	B	A	B
. Rating	-	-	-	-
. Quotation	Not applicable	Not applicable	Not applicable	Not applicable
. Issue date	06.30.2015	06.30.2015	12.31.2015	12.31.2015
. Legal maturity	12.31.2023	12.31.2023	02.28.2021	02.28.2021
. Call option	Not applicable		Not applicable	
. Expected duration	12.31.2023	12.31.2023	02.28.2021	02.28.2021
. Rate	Not applicable	Not applicable	Not applicable	Not applicable
. Subordinated level	-	Sub A	-	Sub A
. Reference Position (€)	277,208,740	18,480,583	281,044,256	18,736,284
. Reference Position at the end of accounting period (€)	36,860,494	16,320,766	40,858,027	18,376,284
. Security subscribers	UniCredit S.p.A.	Partially hedged by protection seller	UniCredit S.p.A.	Partially hedged by protection seller

**Note:**  
 (\*) Synthetic securitisations carried out using the Supervisory Formula Approach ("Supervisory Formula Approach - SFA") as required by Art.262 of Regulation (EU) No.575/2013 (Capital Requirements Regulation - CRR), and earlier by circular 263/2006 of the Banca d'Italia.  
 In case of absence of eligible external rating and if PD and LGD estimations can be provided, the CRR (Art.259 1.b)) requires that the calculation of capital requirements for the various tranches of the securitisation shall be performed using the Supervisory formula, in accordance with Art.262, taking care to provide the following five elements:  
 1. the capital requirement on the securitised assets calculated using the IRB approach (kIRB);  
 2. the level of credit support of the concerned tranche;  
 3. the thickness of the tranche;  
 4. the number of securitised assets;  
 5. the average LGD.  
 Then, using the Supervisory Formula Approach, it is possible to calculate the risk equivalent amount for a securitisation tranche related to its seniority, granularity, support level and risk of the underlying.



**ORIGINATOR: UniCredit S.p.A.**

**Transactions from previous periods**

NAME:	BOND ITALIA2 INVESTIMENTI		ARTS MIDCAP3	
Type of securitisation:	Tranché Cover		Tranché Cover	
Originator:	UniCredit S.p.A.		UniCredit S.p.A.	
Issuer:	UniCredit S.p.A.		UniCredit S.p.A.	
Servicer:	UniCredit S.p.A.		UniCredit S.p.A.	
Arranger:	UniCredit S.p.A.		UniCreditBank A.G.	
Target transaction:	Credit risk hedging		Credit risk hedging	
Type of asset:	Unsecured loans - maturity between 24 and 60 months - to small and medium enterprises		Underlying pool of loans to small and mid corporates	
Quality of Asset:	Performing		Performing	
Closing date:	12.31.2015		11.21.2015	
Nominal Value of reference portfolio (€):	99,861,218		4,367,226,943	
Issued guarantees by the Bank:	-		-	
Issued guarantees by third parties:	Unfunded financial guarantee hedging the junior risk		Funded cash collateralised financial guarantee hedging the junior risk; unfunded financial guarantee hedging the mezzanine risk	
Bank Lines of Credit:	-		-	
Third Parties Lines of Credit:	-		-	
Other Credit Enhancements:	-		-	
Other relevant information:	-		-	
Rating Agencies:	No rating agency, use of Supervisory Formula Approach <sup>(*)</sup>		No rating agency, use of Supervisory Formula Approach <sup>(*)</sup>	
Amount and Conditions of tranching:				
. ISIN	Not applicable	Not applicable	Not applicable	Not applicable
. Type of security	Senior	Junior	Senior	Mezzanine
. Class	A	B	A	B
. Rating	-	-	-	-
. Quotation	Not applicable	Not applicable	Not applicable	Not applicable
. Issue date	12.31.2015	12.31.2015	11.21.2015	11.21.2015
. Legal maturity	02.28.2022	02.28.2022	12.31.2030	12.31.2030
. Call option	Not applicable		Clean-up call, regulatory call	
. Expected duration	02.28.2022	02.28.2022	WAL 3.36 regulatory call expected Dec 2022	WAL 3.36 regulatory call expected Dec 2022
. Rate	Not applicable	Not applicable	Not applicable	Not applicable
. Subordinated level	-	Sub A	-	Sub A
. Reference Position (€)	92,371,627	7,489,591	4,105,194,943	43,672,000
. Reference Position at the end of accounting period (€)	54,799,520	7,489,591	1,779,543,948	43,672,000
. Security subscribers	UniCredit S.p.A.	Partially hedged by protection seller	UniCredit S.p.A.	Hedged by protection seller
. ISIN			Not applicable	
. Type of security			Junior	
. Class			C	
. Rating			-	
. Quotation			Not applicable	
. Issue date			11.21.2015	
. Legal maturity			12.31.2030	
. Rate			Not applicable	
. Subordinated level			Sub A, B	
. Reference Position			218,360,000	
. Reference Position at the end of accounting period			218,001,105	
. Security subscribers			Hedged by protection seller	

**Nota:**

(\*) Synthetic securitisations carried out using the Supervisory Formula Approach ("Supervisory Formula Approach - SFA") as required by Art.262 of Regulation (EU) No.575/2013 (Capital Requirements Regulation - CRR), and earlier by circular 263/2006 of the Banca d'Italia.

In case of absence of eligible external rating and if PD and LGD estimations can be provided, the CRR (Art.259 1.b)) requires that the calculation of capital requirements for the various tranches of the securitisation shall be performed using the Supervisory formula, in accordance with Art.262, taking care to provide the following five elements:

1. the capital requirement on the securitised assets calculated using the IRB approach (kIRB);
2. the level of credit support of the concerned tranche;
3. the thickness of the tranche;
4. the number of securitised assets;
5. the average LGD.

Then, using the Supervisory Formula Approach, it is possible to calculate the risk equivalent amount for a securitisation tranche related to its seniority, granularity, support level and risk of the underlying.

## Securitisations - qualitative tables

ORIGINATOR: UniCredit S.p.A.

## Transactions from previous periods

NAME:	CONFIDIMPRESA TRENINO E COOPERATIVA ARTIGIANA DI GARANZIA DELLA PROVINCIA DI TRENTO	
Type of securitisation:	Tranched Cover	
Originator:	UniCredit S.p.A.	
Issuer:	UniCredit S.p.A.	
Servicer:	UniCredit S.p.A.	
Arranger:	UniCredit S.p.A.	
Target transaction:	Credit risk hedging	
Type of asset:	Small and Medium Enterprises Receivables	
Quality of Asset:	Performing	
Closing date:	06.30.2014	
Nominal Value of reference portfolio (€):	10,540,000	
Issued guarantees by the Bank:	-	
Issued guarantees by third parties:	Financial Guarantee to hedge the junior tranche in the form of a lien on fixed deposit account	
Bank Lines of Credit:	-	
Third Parties Lines of Credit:	-	
Other Credit Enhancements:	-	
Other relevant information:	The Consortia guarantee hedges the 95% of the Junior tranche and the tranche is equal to €665,694	
Rating Agencies:	No rating agency, use of Supervisory Formula Approach <sup>(*)</sup>	
Amount and Conditions of tranching:		
. ISIN	Not applicable	Not applicable
. Type of security	Senior	Junior
. Class	A	B
. Rating	-	-
. Legal maturity	03.31.2020	03.31.2020
. Subordinated level	-	Sub A
. Reference Position (€)	9,874,316	665,694
. Reference Position at the end of accounting period (€)	1,137,892	648,687
. Security subscribers	UniCredit S.p.A.	Covered by protection seller

## Note:

(\*) Synthetic securitisations carried out using the Supervisory Formula Approach ("Supervisory Formula Approach - SFA") as required by Art.262 of Regulation (EU) No.575/2013 (Capital Requirements Regulation - CRR), and earlier by circular 263/2006 of the Banca d'Italia.

In case of absence of eligible external rating and if PD and LGD estimations can be provided, the CRR (Art.259 1.b)) requires that the calculation of capital requirements for the various tranches of the securitisation shall be performed using the Supervisory formula, in accordance with Art.262, taking care to provide the following five elements:

1. the capital requirement on the securitised assets calculated using the IRB approach (kIRB);
2. the level of credit support of the concerned tranche;
3. the thickness of the tranche;
4. the number of securitised assets;
5. the average LGD.

Then, using the Supervisory Formula Approach, it is possible to calculate the risk equivalent amount for a securitisation tranche related to its seniority, granularity, support level and risk of the underlying.

**ORIGINATOR: UniCredit S.p.A.**

**Transactions from previous periods**

NAME:	UNICREDIT MIDCAP 2014	
Type of securitisation:	Tranched Cover	
Originator:	UniCredit S.p.A.	
Issuer:	UniCredit S.p.A.	
Servicer:	UniCredit S.p.A.	
Arranger:	UniCredit S.p.A.	
Target transaction:	Credit risk hedging	
Type of asset:	Small and Medium Enterprises loans	
Quality of Asset:	Performing	
Closing date:	12.16.2014	
Nominal Value of reference portfolio (€):	1,864,170,543	
Issued guarantees by the Bank:	-	
Issued guarantees by third parties:	Financial guarantee to hedge the junior tranche in the form of a lien on fixed deposit account; financial guarantee to hedge the mezzanine tranche in the form of personal guarantee.	
Bank Lines of Credit:	-	
Third Parties Lines of Credit:	-	
Other Credit Enhancements:	-	
Other relevant information:	-	
Rating Agencies:	No rating agency, use of Supervisory Formula Approach <sup>(*)</sup>	
Amount and Conditions of tranching:		
. ISIN	Not applicable	Not applicable
. Type of security	Senior	Mezzanine
. Class	A	B
. Rating	-	-
. Legal maturity	12.31.2026	12.31.2026
. Subordinated level	-	Sub A
. Reference Position (€)	1,715,036,900	37,133,644
. Reference Position at the end of accounting period (€)	257,342,786	37,133,644
. Security subscribers	UniCredit S.p.A.	Covered by Protection Seller
. ISIN	Not applicable	
. Type of security	Junior	
. Class	C	
. Rating	-	
. Legal maturity	12.31.2026	
. Subordinated level	Sub A, B	
. Reference Position (€)	112,000,000	
. Reference Position at the end of accounting period (€)	111,967,259	
. Security subscribers	Covered by Protection Seller	

**Note:**

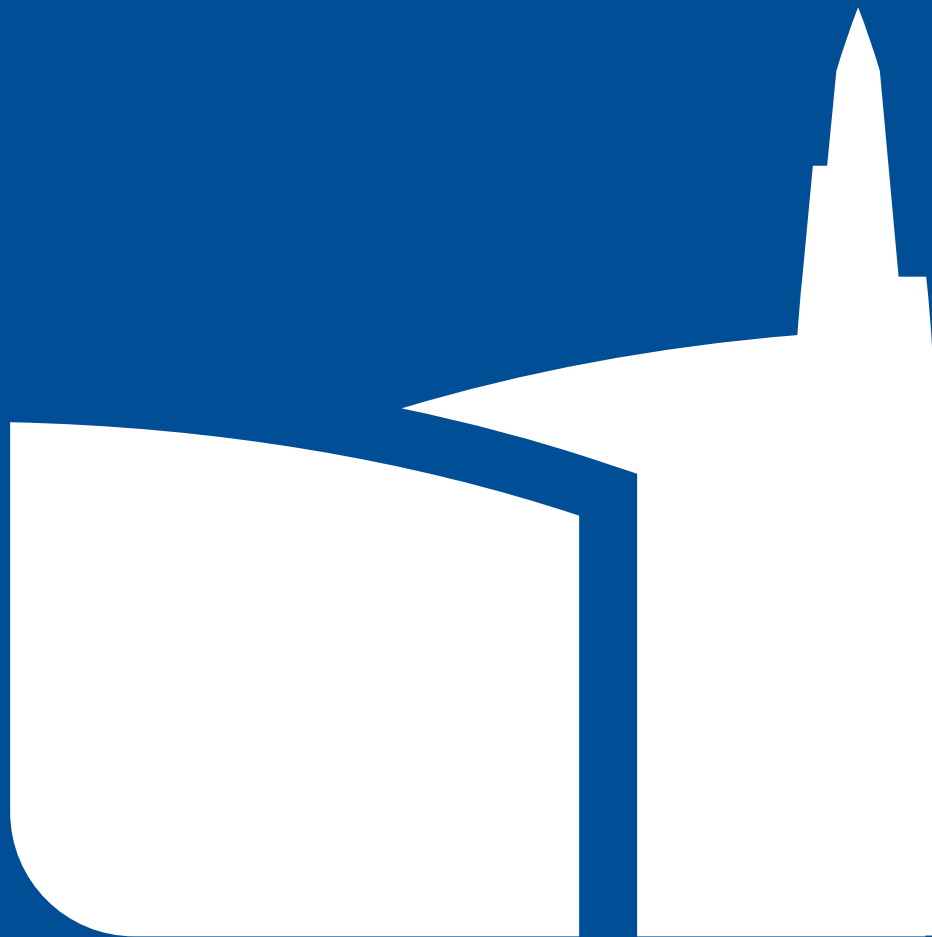
<sup>(\*)</sup> Synthetic securitisations carried out using the Supervisory Formula Approach ("Supervisory Formula Approach - SFA") as required by Art.262 of Regulation (EU) No.575/2013 (Capital Requirements Regulation - CRR), and earlier by circular 263/2006 of the Banca d'Italia.

In case of absence of eligible external rating and if PD and LGD estimations can be provided, the CRR (Art.259 1.b) requires that the calculation of capital requirements for the various tranches of the securitisation shall be performed using the Supervisory formula, in accordance with Art.262, taking care to provide the following five elements:

1. the capital requirement on the securitised assets calculated using the IRB approach (kIRB);
2. the level of credit support of the concerned tranche;
3. the thickness of the tranche;
4. the number of securitised assets;
5. the average LGD.

Then, using the Supervisory Formula Approach, it is possible to calculate the risk equivalent amount for a securitisation tranche related to its seniority, granularity, support level and risk of the underlying.

# Adopt lean but steering center.



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

# Certification

**Annual Financial Statements Certification pursuant to Art.81-ter of Consob Regulation  
No.11971/99, as amended**

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# Annual Financial Statements Certification pursuant to Art.81-ter of Consob Regulation No.11971/99, as amended

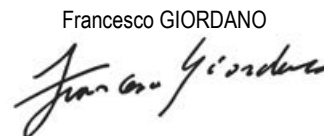
1. The undersigned Jean Pierre Mustier (as Chief Executive Officer) and Francesco Giordano (as the Manager Charged with preparing the financial reports) of UniCredit S.p.A., also in compliance with Art.154-bis, (paragraphs 3 and 4) of Italian Legislative Decree No.58 of 24 February 1998, do hereby **certify**:
  - the adequacy in relation to the Legal Entity's features, and
  - the actual applicationof the administrative and accounting procedures employed to draw up the 2017 Annual Financial Statements.
2. The adequacy of the administrative and accounting procedures employed to draw up the 2017 Annual Financial Statements has been evaluated by applying a model developed by UniCredit S.p.A., in accordance with the "Internal Controls - Integrated Framework (CoSO)" and the "Control Objective for IT and Related Technologies (Cobit)", which represent generally accepted international standards for internal control system and for financial reporting in particular.
3. The undersigned also **certify** that:
  - 3.1 the 2017 Annual Financial Statements:
    - a) were prepared in compliance with applicable international accounting standards recognised by the European Community pursuant to European Parliament and Council Regulation No.1606/2002, of 19 July 2002;
    - b) correspond to the results of the accounting books and records;
    - c) are suitable to provide a fair and correct representation of the economic and financial situation of the issuer;
  - 3.2 the Report on Operations includes a reliable analysis of the operating trend and results as well as of the situation of the issuer, together with a description of the main risks and uncertainties they are exposed to.

Milan - 7 February 2018

Jean Pierre MUSTIER



Francesco GIORDANO







# Reports and Resolutions

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<b>Report of the External Auditors</b>	<b>369</b>
<b>Shareholders' Meeting resolutions</b>	<b>381</b>



# Report of the Board of Statutory Auditors

**Board of Statutory Auditors' Report to the Shareholders' meeting of 12 April 2018  
(pursuant to Art.153 of Italian legislative decree 58/1998 and Art.2429, paragraph 2  
of the Italian civil code)**

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# Report of the Board of Statutory Auditors

*(English translation of the Italian original document)*

**BOARD OF STATUTORY AUDITORS' REPORT  
TO THE SHAREHOLDERS MEETING OF APRIL 12, 2018  
(PURSUANT TO ART.153 of ITALIAN LEGISLATIVE DECREE 58/1998  
AND ART. 2429, PARAGRAPH 2, OF THE ITALIAN CIVIL CODE)**

Dear Shareholders,

the Board of Statutory Auditors (hereinafter, also the "BoSA") is called to report to the Shareholders' Meeting of UniCredit S.p.A. (hereinafter, also the "Bank") on the supervisory activity performed during the year and on any detected omissions and censurable facts, pursuant to Art.153 of Italian Legislative Decree No.58/1998 (Consolidated law on finance - TUF) and Art.2429, paragraph 2, of the Italian Civil Code. The Board of Statutory Auditors is also entitled to make comments and proposals concerning the financial statements, their approval and all matters within its remit.

During 2017, the Board of Statutory Auditors performed its institutional duties in compliance with the Italian Civil Code, Italian Legislative Decree 385/1993 (Consolidated law on banking - TUB), 58/1998 (TUF) and 39/2010 and subsequent amendments and/or additions, the statutory provisions and those issued by the Authorities that exercise supervisory and control activities, also taking into consideration the rules of conduct recommended by the Italian National Board of Certified Public Accountants and Accounting Experts (Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili).

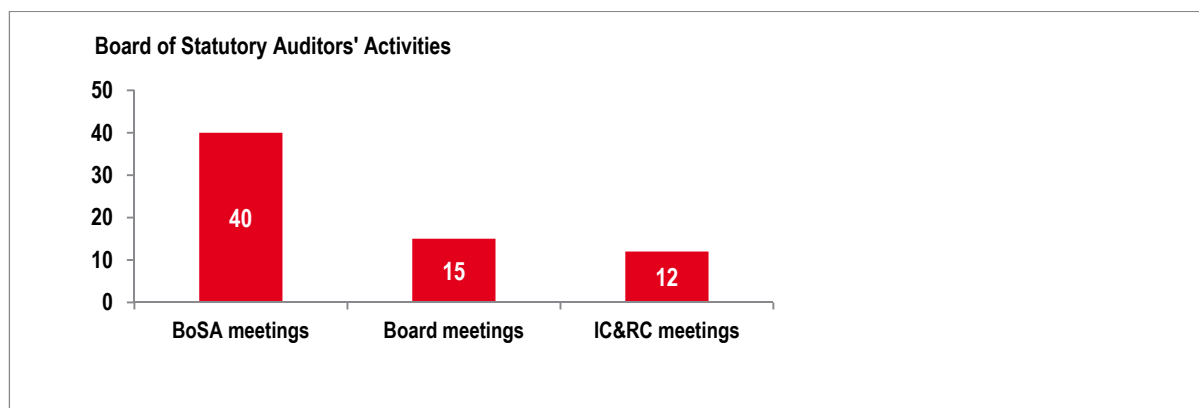
This report provides below the information required by CONSOB Communication 1025564/2001 as amended and supplemented.

## 1. Appointment and activities of the Board of Statutory Auditors

On April 14, 2016, the Shareholders' Meeting of UniCredit S.p.A. renewed the Board of Statutory Auditors, which had lapsed from office by completing its three-year term, appointing its members for the subsequent period and until the approval of the financial statements at 31 December 2018. These were Mr. Pierpaolo Singer (Chairman), Mr. Angelo Rocco Bonissoni, Mr. Enrico Laghi, Ms. Benedetta Navarra, and Ms. Maria Enrica Spinardi (Statutory Auditors). On 2 May 2017, Mr. Enrico Laghi resigned from office due to increasing professional commitments. He was replaced by Mr. Guido Paolucci, former Alternate Auditor from the same list, whose appointment was confirmed by the Shareholders' Meeting on 4 December 2017. On 26 October 2017, Ms. Maria Enrica Spinardi resigned from office for reasons related to her family commitments. She was replaced by Ms. Antonella Bientinesi, former Alternate Auditor from the same list, whose appointment was confirmed by the Shareholders' Meeting on 4 December 2017.

During the 2017 financial year, the Board of Statutory Auditors carried out its activities, holding 40 meetings with an average duration of about 3 hours and 49 minutes.

The Board of Statutory Auditors also participated in all 15 meetings of the Board of Directors and in all 12 meetings of the Internal Control & Risk Committee (hereinafter, also "IC&RC").



## 2. Development of Group activities and other corporate operations

The Board of Statutory Auditors, in parallel with the monitoring carried out continuously by the Board of Directors related to the implementation of the Strategic Plan Transform 2019 (hereinafter also the "Plan") approved in December 2016, continued its analysis aimed at examining the main actions contemplated in the Plan. Among other things, it also carried out specific in-depth reviews with the Top Management regarding the significant progress in achieving the individual predefined objectives, developing a constant and fruitful dialogue within their respective remits. Among the *initiatives to support the strategic plan*, the Report on Operations highlights the following:

### **FINO Project**

"FINO project" has the goal of proceeding with the sale of a significant part of the stock of non-core assets in the portfolio owned by the UniCredit Group, through a securitization market transaction. In particular, it refers to a series of credit exposures originally classified as non-performing, referring to different asset classes, jointly linked to a portfolio conventionally called "FINO Portfolio", which at 30 June 2016 had a gross nominal value of €17,700 million.

It was divided into 2 phases whose general lines were defined in the Framework Agreements signed by UniCredit S.p.A. in December 2016 with two qualified third-party Investors (Pimco and Fortress):

- "Phase 1" consisted of the launch of several securitization transactions with the issuance of Asset Backed Securities (Senior, Mezzanine and Junior) by the Special Purpose Vehicles (SPVs or Vehicles) assignees of the loans included in the FINO Portfolio and their underwriting by UniCredit S.p.A. (for 49.9% of all classes of issued securities) and by third-party Investors (for 50.1% of all classes of issued securities);
- "Phase 2" envisaged assigning a public rating to some of the Senior and Mezzanine securities, obtaining the guarantee on the securitization of non-performing loans (Garanzia sulla Cartolarizzazione delle Sofferenze - "GACS") on the Senior securities and the progressive sale to third-party Investors by UniCredit S.p.A. of the securities underwritten by it.

On 1 February 2017, the Board of Directors of the Bank approved the FINO Project according to the features and content outlined in the Framework Agreements (and the attached documentation), and authorised the Directors to put in place the necessary steps to ensure its completion.

During the second half of 2017:

- "Phase 1" of the Project was finalised through the sale of the loans included in the FINO Portfolio and the issuance of ABS by the SPVs assignees of the loans and the related underwriting by UniCredit S.p.A. (for 49.9% of all classes of issued ABS) and third-party Investors (for 50.1% of all classes of issued ABS);
- as part of "Phase 2", also after obtaining the GACS (following the Decree of the Ministry of Economy and Finance - MEF of 20 December 2017) on the most senior tranche (Class A) issued by one of the SPVs assignees of the loans included in the FINO Portfolio, the progressive sale to third-party Investors of the ABS originally underwritten by UniCredit S.p.A. was pursued, in order to reduce the total amount held below the threshold of 20% through market transactions settled in January 2018.

The Board of Statutory Auditors, together with the relevant structures and the External Auditors, examined the complex and detailed process relating to strategic planning, its implementation and completion of the FINO project, and examined the main aspects, including (i) the existence of the conditions required by the IAS39 AG42 accounting standard for applying the accounting derecognition from the UniCredit S.p.A. Balance Sheet of the receivables included in the FINO portfolio, given the transfer, at the end of Phase 1, of the rights to collect the cash flows deriving from that Portfolio (previously recorded under "Non-current assets and Asset Groups held for disposal"), (ii) the third-party nature of the involved parties that underwrote the notes, (iii) the guarantee clauses and the deferral of part of the price. It also took note of the notification made by UniCredit S.p.A. to the European Central Bank (ECB) regarding the application of the Significant Risk Transfer on the three securitizations based on the related regulatory procedures, starting from 31 March 2018.

### **Bank Pekao**

On 7 June 2017, the sale to Powszechny Zakład Ubezpieczeń SA ("PZU") and Polski Fundusz Rozwoju SA ("PFR") of the stake, equal to 32.8% held in Bank Pekao, was finalised at the agreed price of PLN 123 per share, for a total consideration of PLN 10.6 billion, which resulted in the loss of control; the residual stake of 6.3% was consequently recognised as "Financial assets at fair value", and at 31 December 2017, it shows a book value of €509.4 million.

The transaction, already described in the financial statements at 31 December 2016, is accompanied by the issuance in December 2016 of mandatorily settled equity-linked certificates guaranteed by a pledge on the residual shares held in Bank Pekao. On the one hand, the latter transaction enables the disposal of the entire stake in Bank Pekao to be completed by December 2019 and, on the other, it allows to maintain an exposure to the potential appreciation of the shares of Bank Pekao due to the additional value that may be contributed by the two new shareholders (PZU and PFR).

On 11 December 2017, the transfer to Bank Pekao of the stakes held in the Group's Polish companies at a total price of €140 million was finalised, thus completing the process of divesting the assets in Poland.

## Report of the Board of Statutory Auditors

The Board of Statutory Auditors completed the review, already launched in the previous year, of the profiles and the rationales of the transaction in question, defined as part of the Group's strategic review.

### **Pioneer Investments**

On 3 July 2017, in execution of the agreement signed in December 2016, the sale to Amundi by Pioneer Global Asset Management ("PGAM") of the operating companies of the "Pioneer Investments" conglomerate was completed for a consideration of €3.5 billion, an operation already described in the consolidated financial statements at 31 December 2016.

The operation, whose effects were accounted for in the third quarter of 2017, generated a net gain for the Group of approximately €2.1 billion. The agreement also envisaged a strategic partnership between UniCredit and Amundi for the distribution of asset management products in Italy, Germany and Austria, consolidated by a ten-year distribution agreement. UniCredit will reposition itself on a business model focused on distribution, while maintaining the exposure to commission revenues generated by the placement of asset management products.

With a view to simplifying the Group's structure, also with a view to reducing its costs, on 1 November 2017, the merger into UniCredit of PGAM (a wholly-owned subsidiary which, following the transaction with Amundi, had lost the role of sub-holding). As a result of the incorporation of PGAM, UniCredit acquired direct control of some non-operating companies, as well as two companies in India, for which a sale agreement was signed with Bank of Baroda in December 2016.

The Board of Statutory Auditors completed the review, already launched in the previous year, of the profiles and the rationales of the transaction in question, defined as part of the Group's strategic review.

### **Agreement with the Trade Unions**

As indicated in the previous Board of Statutory Auditors' Report to Shareholders, on 4 February 2017, UniCredit announced that it had reached an agreement with the trade unions on the 3,900 redundancies envisaged in Italy by the "Transform 2019" plan.

The redundancies will be included in the early retirement plans, on a voluntary basis, through access to the Solidarity Fund of the financial sector. At the same time, to guarantee a generational turnover, UniCredit has committed to recruiting 1,300 young people over the next three years.

### **3. Other transactions and initiatives involving equity investments**

#### **Equity investments in the Atlante Fund and the Italian Recovery Fund (former Atlante II)**

As reported by the Directors in the Report on Operations, "Atlante" is a closed-end mutual investment fund under Italian law, reserved for professional investors and managed by Quaestio Capital Management SGR S.p.A. Unipersonale ("Quaestio SGR"), with a total capital allocation at the time of establishment of €4.2 billion in which UniCredit has a stake of 19.9% of the total amount collected by the fund.

The investment policy of Atlante envisages that the Fund may invest (i) in banks with regulatory capital ratios lower than the minimum established in the SREP and which therefore, at the request of the Supervisory Authority, take steps to strengthen equity by increasing capital and (ii) in non-performing loans (NPLs) of a number of Italian banks.

At 31 December 2017, UniCredit holds 845 shares of the Atlante Fund (out of a total of 4,249), classified as financial assets held for sale (against investments for a total of €779 million, of which €93 million in 2017) for a book value of €95 million net of further write-downs compared to that of €547 million made in December 2016, equal to €137 million. It also has a commitment for subsequent payments to the Atlante Fund for €66 million.

The Atlante II Fund was established in August 2016, then renamed Italian Recovery Fund on 27 October 2017. This is a closed-end mutual investment fund reserved for professional investors, also managed by Quaestio SGR which, unlike the Atlante Fund, can only invest in junior tranches and mezzanine notes issued by vehicles set up for the acquisition of NPL portfolios from several Italian banks (in line with the parameters used by the major institutional investors) in order to reduce the risk.

UniCredit, after the subscription of 40 shares as part of the Fourth Closing that occurred in September 2017, holds at 31 December 2017, 195 shares in the Italian Recovery Fund, which are also classified among the financial assets held for sale, for a book value of €99 million, in line with the underwriting price. It also has commitments for subsequent payments amounting to €96 million. The total commitments collected by the Atlante II Fund at 31 December 2017 amounted to €2.48 billion and, therefore, UniCredit's share amounts to 7.9%.

The Board of Statutory Auditors analysed and acknowledged the managerial valuation carried out on the basis of an internal model.

### ***Istituto Europeo di Oncologia S.r.l.***

As part of the Social Impact Banking programme aimed at improving the well-being of the communities in which UniCredit operates and funds projects with a positive impact on people, UniCredit decided to support the initiative promoted by Mr. Leonardo Del Vecchio with the objective of creating a foundation that contributes to the development and improvement of Istituto Europeo di Oncologia S.r.l. ("IEO" - non-profit hospital that operates in the field of cancer research and therapy). In this context, UniCredit essentially transferred its entire 12.376% stake in IEO to Delfin H S.r.l. which, having obtained the required authorizations, will be transformed into the aforementioned foundation.

### ***Sale of the stake in i-Faber S.p.A.***

Following a broader review aimed at rationalising the Group's holdings, as well as focusing the business on the core activities, UniCredit signed a letter of intent in the last quarter of 2017 for the sale of the entire investment held in i-Faber S.p.A. to a leading operator in the sector. In consideration of the advanced status of the negotiations and the expected completion of the sale within 12 months, the investment was classified among the assets held for sale (IFRS5) at 31 December 2017.

The Board of Statutory Auditors examined the strategic motivations of this decision with the Functions in charge, the impact on the structure and the economic effects of the transaction.

### ***Contract renegotiation with ES Shared Service Center S.p.A.***

ES Shared Service Center S.p.A. ("ES SSC"), as reported by the Directors in the Report on Operations of the consolidated financial statements, is a joint venture formed in 2012 by UniCredit Business Integrated Solutions S.c.p.A. ("UBIS"), with a 49% stake, and Hewlett Packard Enterprise, with the remaining 51% stake. ES SSC is responsible for providing services in the Human Resources area for the companies of the UniCredit Group in Italy and Austria through a 15-year outsourcing contract. In line with the new HR Transformation programme led by UniCredit HR Transformation & Operations Office, a major review of the relationship with ES SSC was negotiated.

In particular, the renegotiation of the service contract for UBIS involves the inclusion of a clause of termination for convenience, which will allow UBIS, with effect from July 2018, to exit the current contractual relationship, through payment of a termination fee and waiver of the existing put option for the sale of the UBIS stake in the ES SSC joint venture.

The BoSA examined the strategic reasons for the transaction with the Functions in charge, the impact on the Bank's structure, the rationales and the related economic effects.

### ***Conversion of tax credits***

As reported by the Directors, against the 2016 accounting loss of €11,460.1 million, the conditions were met for a new conversion of Deferred Tax Assets (DTA) into tax credits pursuant to Art.2, paragraph 55, of Italian Decree Law of 29 December 2010 no.225.

The amount of the conversion is €2,859.3 million.

The Board of Statutory Auditors examined the case in question with the structures in charge.

In order to keep unchanged for the future the scheme that allows the conversion of DTAs into tax credits, overcoming the critical issues raised by the European Commission on this legislation in terms of possible State aid, with Art.11 of Italian Decree Law No.59 of 3 May 2016 (so-called "Bank Decree", converted into Italian Law No.119 of 30 June 2016), the possibility of opting, starting from 2016 and up to 2030, for paying an annual fee of 1.5% on an aggregate consisting of the difference between:

- the increase in convertible DTAs recorded in the financial statements at the end of the year and the convertible DTAs recorded at the end of 2007 for IRES and at the end of 2012 for IRAP, taking into account the performed conversions into tax credits;
- the taxes:
  - IRES paid by the tax group from 1 January 2008;
  - IRAP paid from 1 January 2013 by the companies included in the tax group with convertible DTAs recognised in the balance sheet;
  - substitute taxes that generated convertible DTAs.

On 28 June 2017, the Bank liquidated the fee of €111.8 million. Considering the provisions made in 2016, consistently with the legislation in force at the date and amounting to €121.6 million, a positive impact of approximately €10 million was recorded in the Income Statement under the item Administrative costs b) other administrative expenses.

## **4. Atypical or unusual transactions**

The Report on Operations, the information received during the meetings of the Board of Directors and the information received from the Chairman and the CEO, the management, the direct subsidiaries' Boards of Statutory Auditors, and the External Auditors revealed no atypical and/or unusual transactions, including intragroup or related-party transactions.

## **5. Intragroup or related-party transactions**

The intragroup or related-party transactions of greater relevance are specified in the Report on Operations.

## Report of the Board of Statutory Auditors

### **Global Policy for the management of transactions with Persons in conflict of interest**

With a resolution of 5 March 2018, the Board of Directors approved an updated version of the Global Policy for the management of transactions with persons in conflict of interest, pursuant to CONSOB Regulation 17221/2010, the Bank of Italy Circular 263/2006 and Art.136 of Italian Legislative Decree 385/1993.

The Global Policy requires that it be reviewed on an annual basis to check its adequacy and effectiveness over time, with the aim of providing, where necessary, additional operational procedures to make the application of the Global Policy more effective, to improve the management of the decision-making process by the competent Bodies for certain types of operations and to implement new organizational structures with clear divisions of responsibilities to ensure the effective execution of activities and the consistency of policies, methodologies and practices regarding the management of transactions with persons in conflict of interest.

In light of the experience gained, the areas of intervention were, in particular:

- the identification of further members of the combined perimeter;
- the identification and management of transactions with members of the combined perimeter, including those associated with debt recovery activities in the scope of non-ordinary transactions by nature and conditions;
- the decision-making procedures for transactions with members of the combined perimeter;
- the transposition into the Global Policy of the new organizational model introduced by the Bank in order to ensure the best execution of the activities.

On 27 February 2018, the Board of Statutory Auditors, after obtaining the favorable opinion of the Related Parties and Equity Investments Committee, issued an opinion on the overall suitability of the renewed Global Policy to achieve the objectives set by the Bank of Italy's regulatory provisions concerning risk and conflicts of interest with associated persons and CONSOB's provisions regarding related parties.

### **Global Policy "Internal controls on risk activities with Persons in conflict of interest"**

The Bank of Italy's regulations (Circular No.263 - Title V, Chapter 5) provide for the annual assessment of the policies of internal control on activities at risk with respect to Related Parties.

The Board of Statutory Auditors acknowledged that for 2017 the relevant Group Risk Management and Group Compliance Functions assessed as not necessary the revision of the current Global Policy "Internal Controls on Risk Activities with Persons in Conflicts of Interest" (2016 edition) whose contents have therefore been confirmed and which therefore remains in force, based on the positive opinion issued by the Related Parties and Equity Investments Committee and the Board of Statutory Auditors and presented during the Board of Directors meeting of 2 August 2016.

### **Transactions pursuant to Art. 136 TUB**

With reference to transactions approved by the Board of Directors pursuant to Article 136 of Italian Legislative Decree No.385/1993 (TUB), the competent structures conducted an analysis of the creditworthiness of each of the proposals, expressing a favorable opinion and specifying that the transactions subjected to Board approval were assessed at market conditions, in line with those envisaged for customers with similar risk profile and economic sector.

## **6. Supervision of the statutory audit activity**

Directive 2014/56/EU Art. 28 amended Directive 2006/43/EC regarding the statutory audit. It was implemented in Italy with Legislative Decree No.135/2016, which updated Italian Legislative Decree No.39/2010. Regulation (EU) 537/2014 of 16 April 2014, Art.10 (hereafter also the "Regulation") defines the specific requirements of the audit report for public interest entities.

Pursuant to Art.19 of Italian Legislative Decree 135/2016, during the course of 2017 and up to the date of this Report to the Shareholders, the Board of Statutory Auditors carried out a monitoring process during all the activity carried out by the External Auditors.

The BoSA scheduled a series of specific meetings during the various phases of the audit, during which it examined, among other things:

- the initial audit proposal, approved by the UniCredit S.p.A. Shareholders' Meeting at the time that the task was assigned, and subsequent additions, approved by the competent Bodies;
- the 2017 Transparency Report, with particular reference to the processes of certification of independence of the personnel of the External Auditors and of quality control (practice review);
- the scope of work, materiality and significant risks 2017;
- the Global Referral Instructions with reference to the 2017 auditing activities;
- the 2017 Audit Plan;
- the 2017 Group Audit timetable.

The Board of Statutory Auditors analysed the methodology adopted by the External Auditors and acquired the necessary information in progress, with constant interaction on the audit approach used for the various significant areas of the financial statements, sharing the issues related to corporate risks, as well as receiving updates on the progress of the audit and on the main aspects examined by the External Auditors.



In October 2017, the Board of Statutory Auditors also met the Partners of the Deloitte network, responsible for the audit of UniCredit Bank AG, UniCredit Bank Austria AG, AO UniCredit Bank and the Companies belonging to the CEE (Central Eastern Europe), for the usual annual update on the evolution of the scenario in the various countries and on the main results of the respective audit activities.

The Board of Statutory Auditors reviewed the following reports of the External Auditors Deloitte & Touche S.p.A., whose activity supplements the general framework of the control Functions required by the regulations in regard to financial information:

- the auditing reports issued on 12 March 2018 pursuant to Art. 14 of Italian Legislative Decree 39/2010 and Art. 10 of Regulation (EU) No.537/2014;
- the additional report issued on 12 March 2018, pursuant to Art.11 of the aforementioned Regulation, to the Board of Statutory Auditors as the internal control and auditing committee;
- the annual confirmation of independence, issued on 12 March 2018, pursuant to Art.6 par. 2) letter a) of the Regulations and pursuant to paragraph 17 of ISA Italia 260.

The aforementioned reports on the auditing of the financial statements and consolidated financial statements show that the company financial statements and the consolidated financial statements of the Group provide a truthful and correct representation of the equity and financial situation of UniCredit S.p.A. and of the UniCredit Group at 31 December 2017, of the economic performance and cash flow for the year ended on that date in accordance with the International Financial Reporting Standards adopted by the European Union as well as the provisions issued in implementation of Art.9 of Italian Legislative Decree No.38/05 and of Art.43 of Italian Legislative Decree No.136/15.

Furthermore, in the opinion of the External Auditors, the Report on Operations and some specific information contained in the Report on Corporate Governance and Ownership Structure indicated in Art.123-bis, paragraph 4, of Italian Legislative Decree No.58/98 (TUF) are consistent with the financial statements of UniCredit S.p.A. and with the consolidated financial statements of the UniCredit Group at 31 December 2017 and are prepared in accordance with the law. With reference to the possible identification of significant errors in the Report on Operations (Art.14, paragraph 2, letter e) of Italian Legislative Decree No.39/2010), the External Auditors declared that there was nothing to report.

Starting from the financial year 2017, the reports on the auditing of the financial statements and the consolidated financial statements show the key audit matters that, according to the professional opinion of the External Auditors, were more significant in the audit of the company and consolidated financial statements for the year under review [ISA (Italia) 701].

Specifically:

- FINO project: accounting derecognition of a portfolio of non-performing loans following the transfer through securitization;
- classification and valuation of non-impaired loans to customers;
- classification and valuation of impaired loans to customers (unlikely to pay and non-performing loans);
- legal risks related to failure to comply with the economic sanctions imposed by the United States of America ("US") to other countries.

Regarding the aforementioned key matters, for which the External Auditors' reports illustrate the related audit procedures adopted, the External Auditors do not express a separate opinion, as the same have been dealt with in the audit and in the assessment of the financial statements as a whole. The aforementioned key matters have been the subject of detailed analysis and updates during the periodic meetings that the Board of Statutory Auditors held with the External Auditors.

The Board of Statutory Auditors met regularly with the External Auditors as required by Art.150, paragraph 3, of Italian Legislative Decree 58/1998 (TUF) for a two-way exchange of information. It informed the Board of Statutory Auditors that there were no censurable actions or facts or irregularities which would have required specific reporting under Art.155, paragraph 2, of Italian Legislative Decree 58/1998 (TUF).

In light of the foregoing, the Board of Statutory Auditors deems the process of interaction with the External Auditors to be adequate and transparent. It also believes that the improvement of the two-way dialogue between the External Auditors and the bodies responsible for governance on the areas of budget risk and on the procedures identified to oversee them further supported the role and responsibility of the parties involved in the preparation of the financial statements and in the auditing activities.

## **7. Supervisory activity on the independence of the External Auditors**

During the 2017 financial year, pursuant to Art.19 of Italian Legislative Decree 39/2010, the Board of Statutory Auditors verified and monitored the independence of the External Auditors Deloitte & Touche S.p.A., pursuant to articles 10, 10-bis, 10-ter, 10-quater and 17 of the aforementioned decree and article 6 of the Regulation in particular with regard to the adequacy of the provision of services other than auditing to the audited entity. Furthermore, as previously stated (see previous paragraph), the Board of Statutory Auditors received the declaration confirming its independence from UniCredit S.p.A.

Following the entry into force starting from financial year 2017 of the aforementioned Regulation on specific requirements related to the statutory audit of the accounts of public interest entities (EIP), the Board of Statutory Auditors carried out, together with the relevant Bank structures (Group Cost & Expenditure Management), a review of the existing internal regulations, Global Operational Instruction (GOI), called "Management of contractual relations with the independent Group Auditor", issued in October 2014 and addressed to all Group subsidiaries.

## Report of the Board of Statutory Auditors

From January 2017, the Bank has sent operating instructions to all the companies of the UniCredit Group so that they may submit each single non-audit appointment for the assessment and approval of the internal Control Body of each Group company (Board of Statutory Auditors, Audit Committee or equivalent body), and after the resulting outcome, to the UniCredit S.p.A. Board of Statutory Auditors to issue the final binding opinion. The Board of Statutory Auditors also took note of the information concerning non-audit services prepared through a preventive and four-monthly flow by the competent Function. Therefore, pursuant to this process, all the companies of the UniCredit Group contributed to the transmission of the data requested and required by internal regulations, in order to enable the timely monitoring of the costs of the services provided by the External Auditors and by all entities belonging to the Deloitte network.

The Board of Statutory Auditors then performed an analysis and interpretation of the legislation applicable to the EIPs, particularly on the evaluation/approval process of non-audit appointments to be assigned to the External Auditors, on the CAP calculation method compared to the average of the fees paid in the last three consecutive years for the statutory audit, supported by the opinions of trade associations pending the issuance of the CONSOB Regulation envisaged by Art.17, paragraph 2 of Italian Legislative Decree 39/2010.

At the end of this activity, the Board of Statutory Auditors considered it appropriate to propose to the Bank a more conservative interpretation of the European legislation regarding the evaluation and approval of each single non-audit assignment that will lie with both the subsidiary EIP control body and the control body of the EIP at the top of the chain (UniCredit), with the latter's involvement even if the company to which the service is provided is not an EIP. Furthermore, the CAP calculation will not consider only the services provided during the year by the External Auditors, but all the services referring to the Auditor's network. This interpretation will be applied to all the subsidiaries of the UniCredit group, including those that do not fall under the jurisdiction of the European Community.

The aforementioned revision of the internal operating instructions, aimed at strengthening the steering, coordination and control functions with further details, rules, responsibilities, processes and activities for the correct application of EU Regulation No.537/2014, is, as of the date of this Report, of forthcoming publication.

On the basis of the final data for 2017, the services provided by the Group's External Auditors amount to approximately €38.5 million, of which €7.3 million refer to non-audit services.

The ratio between the cost of non-audit services for 2017 and the three-year average of audit services (2014-2015-2016) amounted to 32%, lower than the limit established by internal and external regulations (70%). On the other hand, as regards non-audit services planning for 2018, the Deloitte network will provide services with a value of approximately €5.4 million, with a resulting decrease in the forecast CAP to 24%.

Furthermore, the Board of Statutory Auditors received periodic information from the Board of Statutory Auditors of the subsidiary UniCredit Business Integrated Solutions (UBIS) on the methods of allocation of the non-audit services requested to the Deloitte network for the benefit of other Group companies.

With reference to the information provided in the statement relating to the "Disclosure of fees - UniCredit S.p.A., relevant to the 2017 financial period, Deloitte network", it should be noted that, compared to the previous year, the costs of the services assigned to the External Auditors increased, net of inflation, by €100,000, in consideration of the supplemental fees requested by the External Auditors following the introduction of the new SA Italia and ISA standards, while the costs of certification services, amounting to €3,426,000, decreased compared to the previous year by 47%. The costs of non-audit services, amounting to €944,000, showed an increase attributable in particular to the support for some of the Bank's projects and other audit procedures (including "Reporting and Data Model", "Own Funds").

At the Group level, the costs of non-audit services assigned to the External Auditors decreased by 22% compared to 2016.

In this regard, the Board of Statutory Auditors, in order to perform its monitoring effectively and promptly, reserves the right to establish a more restrictive CAP every year.

### 8. Oversight of the financial reporting process

For the purposes of overseeing the financial reporting processes, the Board of Statutory Auditors, in addition to the aforementioned in-depth analysis carried out with the External Auditors, which did not report significant critical issues in the internal control system concerning the financial reporting process, carried out the planned and periodic meetings with the Manager in charge with preparing the financial reports and the competent Accounting and Group Risk Management structures.

The administrative and accounting procedures for drafting the company and consolidated financial statements and all other financial information were set up under the responsibility of the Manager in charge with preparing the financial reports who, together with the CEO, attests that they are adequate and actually applied.

In the course of the aforementioned periodic meetings, the Manager in charge with preparing the financial reports did not report any significant shortcomings in the operating and control processes that could undermine the adequacy and actual application of the administrative and accounting procedures, in order to correctly represent the economic, equity and financial aspects of the accounting events in compliance with international accounting standards.

The Manager in charge with preparing the financial reports and the Chief Executive Officer signed the statements relating to the company and consolidated financial statements at 31 December 2017, pursuant to Art.81-ter of the Issuers' Regulation, approved by CONSOB with Resolution 11971/1999 as amended and supplemented.

The Board of Statutory Auditors examined the internal regulations relating to the process that allows the Manager in charge with preparing the financial reports and the Chief Executive Officer to issue the aforementioned statements and took note of the updates on the subject, including those of the "Manual of Accounting Rules and Principles (Internal Regulation 911)" (approved by the Board of Directors in January and March 2018) with particular reference to the introduction of the new accounting standards (IFRS9 and IFRS15) and the issuance of the new Circular 262 by the Bank of Italy and the revision of the Global Policy "Internal control system on the financial reporting (Law 262/05 - Manager in charge)" as approved by the Board of Directors meeting of December 2017.

The Board of Statutory Auditors also acknowledged the "Report on the status of the internal control system on Financial Reporting - Management Report" with regard to the certification campaign L. 262/05 on the financial statements at 31 December 2017, issued on 9 February 2018.

In light of the information received and of the analyses carried out, as also described below, the Board of Statutory Auditors deems the overall administrative accounting system to be adequate in regards to the current regulations. In any case, it recommends continuing without delay the steering and implementation of the corrective actions planned by the Management, as well as further strengthening the role of steering and coordination on the Group companies by the Corporate Centre structures, with a view to increasingly sharing, harmonization and monitoring the different financial reporting processes.

Compared to a total of 590 companies wholly consolidated at 31 December 2017, on the basis of the criteria defined in the aforementioned internal regulations, the companies subject to certification for the 262 campaign amount to 74 and cover 97.7% of the Group Total Aggregated Assets ("GTAA").

The certification campaign at 31 December 2017, which for UniCredit S.p.A. involved 313 processes that undergo 1366 checks, ended with the issuance of all the so-called "internal certificates" to the UniCredit S.p.A. Manager in charge with preparing the financial reports by the counterparties of the relevant companies. Given the fact that the process setup and the related checks are constantly updated, the Board of Statutory Auditors has recommended particular care in ensuring their complete mapping for the purposes of the related 262 certification.

Regarding the areas of improvement that emerged from the certification campaign, which mainly concern i) the existence of substantial manual procedures that characterise part of the operations of the Functions directly involved in the preparation of company and consolidated financial statements/reports, ii) the supply of automated reports/procedures to improve the production and control activities carried out manually, the BoSA will continue to monitor the complete addressing of the related remedial actions, with a view to gradually reducing the use of compensatory actions, which are often manual and operationally onerous.

The Board of Statutory Auditors acknowledged the procedures performed by the External Auditors requested by the Bank ("Agreed-upon procedures") at the instigation of the BoSA itself, in relation to (i) the processes and related first- and second-level controls for (a) determining Own Funds and Banking Regulatory Ratios; (b) determining Risk-Weighted Assets; (c) producing the information provided in the Notes to the Consolidated Accounts for 2017 and in the chapter relating to Own Funds of Pillar III; (ii) verifying the composition, the correct determination and the arithmetic correctness of certain information provided in the Notes to the Consolidated Accounts for 2017 and in the chapter relating to Own Funds of Pillar III; (iii) the performance and consistency analysis of the Own Funds, Banking Regulatory Ratios and Risk-Weighted Assets. The Board of Statutory Auditors believes that the above-described activity makes it possible to consider the internal regulatory framework adequate and updated, the design of the procedures and the control processes implemented sufficiently formalised and comprehensible and the planned control activities (both of first and second-level) effectively implemented and effective. It also contributes to the growth of the internal culture regarding the analysis of the phenomena underlying the formation of the Own Funds as well as an ever greater transparency towards the markets.

Regarding the activities related to the strengthening of the data and information governance, as well as the stronger safeguards for decision-making and risk control processes, a topic to which the Board of Statutory Auditors has paid particular attention over time, in-depth analyses were carried out with the competent structures (Group Data Officer - GDO) regarding the approach adopted in relation to the Data Quality Overall Plan. The latter is based on the Moving Target Quality Process, a gradual and continuous improvement cycle aimed at defining the necessary actions and measuring their impact on the discipline of Data & Information Governance, to take into account the developments envisaged by the PERDAR 2.0 project (Principles for Effective Risk Data Aggregation and Reporting Processes - BCBS - Basel Committee on Banking Supervision) and which also intends to provide answers to the Internal Audit findings.

During two meetings with the GDO, the BoSA was able to verify that the activities set out in the Data Quality Overall Plan, also submitted to the attention of the ECB, are in line with the timetable, and some of these were concluded with the achievement of specific deliveries. In particular, it should be noted that the ongoing challenging activities are linked to the recovery of the collaterals, the cadastral information and of information from third-party servicers.

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The BoSA also welcomed the further actions taken to disseminate and share issues related to Data & Information Governance and, in accordance with the recommendations of the ECB, a specific Teach-In training plan was defined, to be delivered to the relevant Functions relating to the following functional macro-areas: Credit Risk, Liquidity Risk, Data Governance, Business, Big Data & Analytics.

The Board of Statutory Auditors acknowledges both the impairment procedure approved by the Board of Directors and the results of the impairment test on goodwill and other intangible assets at 31 December 2017. This activity was carried out by uniformly calculating the capital allocated to the CGU - Cash Generating Units (units generating financial flows identifiable in segments of the Group's operating activities) of the CEE compared to the method used for all the other CGUs.

The Notes to the Consolidated Accounts show the effects of the deferred tax assets (IRES and IRAP) deriving from the redemption of the greater values of the controlling interests pursuant to Art.23 of Italian Decree Law 98/2011 and those relating to deferred tax assets (IRES and IRAP) deriving from the tax redemption of accounting goodwill. The sustainability test of the deferred tax assets made on UniCredit S.p.A. and on the Italian consolidated fiscal scope for both IRES and IRAP purposes was also carried out considering, in determining the "Taxable Base" expected for the year 2018, the best available estimated impact deriving from the first application of accounting standard IFRS9.

In 2017, the BoSA continued to update and deepen the progress of the "IFRS9" implementation project (also subject to the ECB's Thematic Review), which is proceeding according to the timelines set by the Bank. Furthermore, the methodological choices adopted by the UniCredit Group in the context of the IFRS9 Project are subject to a structured analysis by the External Auditors, which is conducting an overall assessment of the related implementations.

It should be noted that from the analyses carried out thus far, no critical issues emerged such as to cast doubt on the overall adequacy of the aforementioned choices vis-à-vis the requirements of the new standard.

The Notes to the Consolidated Accounts provide information on the impacts related to the introduction of the new IFRS9 principle (FTA - First Time Adoption), which consists of:

- a qualitative part that summarises the methods for calculating the impairment and the Classification and Evaluation criteria already shared with the ECB as part of the aforementioned Thematic Review IFRS9, and with the External Auditors;
- a quantitative part which is preliminarily estimated in terms of basis points and relative countervalue of impact on the Core Tier 1 Ratio using the information available on the date.

The Notes to the Consolidated Accounts provide detailed information on any liabilities and costs that may arise from pending judicial proceedings (other than labor law and taxation).

The Board of Statutory Auditors has investigated with the Bank's Legal Function the methodology and the process adopted in analysing the dispute and determining the related provisions.

In particular, information is provided in the Notes on the developments of ongoing investigations by the US Authorities on issues related to economic Sanctions imposed by the United States. As indicated by the Bank's lawyers, it cannot be excluded that the investigations on the methods for complying with the sanctions imposed in the past might be extended to other companies of the UniCredit Group or that proceedings might be opened against UniCredit S.p.A. and/or the Group. The Directors point out that UniCredit S.p.A. and the Group companies have not yet concluded any agreement with the various US Authorities and, therefore, it is not possible to determine the form, extent or duration of any decisions of the competent authorities, including the relative final costs, necessary remedies, payments or other responsibilities that may be incurred. It cannot be excluded that any settlement agreements concluded by UniCredit and Group companies with the competent US Authorities may prove to be significant.

The costs of investigation, remediation and/or payments or other legal costs incurred in connection with the aforementioned inspections could result in liquidity outflows and have negative consequences on the net assets and net results of UniCredit and one or more of its subsidiaries.

The Notes to the Consolidated Accounts also update the proceedings relating to the Squeeze-Out of the former minority shareholders of UCB AG and of UCB Austria (known as Appraisal Proceeding), for which at present it is not possible to estimate either the duration or the amount subject to dispute. In November 2017, appraisal reports were issued by experts appointed by the District Court of Munich (non-binding), which confirmed that the valuation of UCB AG for the purposes of determining the squeeze-out price was overall adequate. The experts also identified some parameters that could have led to an increase in the value of the companies previously controlled by UCB AG and some financial institutions in CEE countries. In this context, the experts contest the fairness of the purchase prices paid before the squeeze-out from UniCredit to UCB AG in relation to UCB Austria and the aforementioned CEE financial institutions. The Bank continues to believe that it has operated in full compliance with the law and considers the price paid to minority shareholders to be adequate.

The Directors provide information on the phenomenon of anatocism and derivative products, which also involve the financial system as a whole.

With regard to the dispute concerning anatocism, since the early 2000s there has been a progressive increase in the litigation promoted by current account holders who have requested the refund of interest paid due to the quarterly anatocism. In 2017, the restitution/compensation claims showed a slight reduction compared to 2016. To date, the Bank set aside provisions that it deemed sufficient to cover the lawsuit risk.

The BoSA took note of the conclusion of the two proceedings initiated by the AGCM (Italian Antitrust Authority) for unfair commercial practices on Anatocism (fine of €5 million) and Investments in diamonds (which ended with a fine of €4 million), of the internal initiatives taken by the Bank in this regard and of the subsequent appeals presented to the Regional Administrative Court for both fines, paid by the Bank.

With regard to litigation related to derivative products, the Directors report that various financial institutions, including companies belonging to the UniCredit Group, have concluded a variety of derivative contracts, both with institutional investors and non-institutional customers. In Germany and Italy, there are pending disputes against Group companies related to derivative contracts promoted by institutional and non-institutional investors. These disputes affect the financial sector in general, and not specifically UniCredit and its Group companies. The overall impact of these judicial initiatives is not foreseeable at present.

Taking into account the complexity of the relevant regulatory framework and interpretations that are not always consistent in this regard, the Bank assesses case by case whether it can record provisions for risks and charges to cover disbursements, which are deemed likely, in a context that has seen a general increase of "litigiousness" in the banking sector. The Compliance Function, together with the Legal Function, supports the phases of analysis and assessment of the adequacy of possible customer care actions or other initiatives that can create particular situations in which the Bank could be involved, in order to better define them.

The trend in market rates has meant that the Euribor has assumed negative values, highlighting the problem of how to determine the final rate to be applied to customers. Taking into account the complexity of the aforementioned framework, the underlying contractual aspects and provisions were monitored in depth, and in line with them and in compliance with the regulations in force, the Bank takes the appropriate steps, including by setting aside a provision for risks and charges due to disbursements to customers, calculated based on the level of probability of occurrence of the liability.

The Notes to the Consolidated Accounts also provide information on the provisions for risks to cover fiscal risks for tax disputes and audits.

## 9. Oversight of the adequacy of the internal control and risk management system

The internal control system in the UniCredit Group is based on:

- Control Bodies and Functions which involve, each for their respective remits, the Board of Directors, the Internal Controls & Risks Committee (IC&RC), the Chief Executive Officer as Director in charge of the internal control and risk management system, the Board of Statutory Auditors, as well as the company Functions with specific duties in this regard;
- information flows and methods of coordination between the parties involved in the internal control and risk management system;
- Group Governance mechanisms.

As indicated in the Report on Corporate Governance and Ownership Structure, the types of control in UniCredit - in compliance with current legislation and inspired by international best practices - are structured on three levels:

- line controls (known as first-level controls), handled by the corporate Functions responsible for the business/operating activities, as well as a dedicated structure (Internal Controls Italy), which supports the Co-Heads Italy as system manager of first-level operational controls, including those set forth by "special laws", with reference to the relevant structures/activities;
- controls on risks and compliance (known as second-level controls), handled by the Group Compliance and Group Risk Management Functions, each for the matters within their respective remit;
- internal audit (known as third-level controls), handled by the Internal Audit Function.

Pursuant to Circular No.285 of the Bank of Italy, the Anti-Money Laundering Function and the Internal Validation Function are also included in the corporate control Functions, respectively positioned within Group Compliance and Group Risk Management.

During the period in question, the Board of Statutory Auditors acknowledges having carried out a periodic exchange of relevant information with the aforementioned control Functions. It also acknowledges that the aforementioned control Functions have fulfilled the related disclosure obligations towards the BoSA.

Moreover, in order to guarantee a continuous and timely flow of information with Internal Audit, the Head of the Function has a standing invitation to the BoSA meetings.

On the basis of the acquired information included in the 2017 Report (Integrated Audit Report) of the Internal Audit Function, the internal control system was assessed overall as "mostly satisfactory". The audits that were carried out highlighted a significant reduction, compared to 2016, in the stock of the findings formulated by both Internal Audit and the Regulators.

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With reference to credit risk, more extensively discussed in the appropriate section below, the initiatives launched to address the weaknesses identified in the second-level controls (NPE Operational Plan, collateral management) are in line with what was planned, while the existing weaknesses detected on internal credit models are expected to be progressively addressed and resolved with the Multi-Year Plan defined by the Bank "2018-2020 IRB Model Roadmap - MYP".

The BoSA examined the Internal Audit assessments regarding those risks for which there was an increase in the level of attention (security/data protection, ICT risk assessment). The Bank is awaiting the results of a follow-up by the Supervisor regarding ICT Risk issues (in particular, access rights).

Within the framework of the "Annual Report on Outsourcing", which did not reveal specific critical issues, Internal Audit identified some areas worthy of strengthening in terms of execution by some service providers.

The results of the audits expressed in the annual Internal Audit report pursuant to Art. 14 Bank of Italy/CONSOB joint register of 29 October 2007 ("Relazione Annuale di Internal Audit ai sensi art. 14 Reg. congiunto Banca d'Italia/CONSOB del 29 ottobre 2007") on the provision of investment services show an overall assessment of "mostly satisfactory" for the internal control system also for 2017. The progressive improvement in risk management was confirmed, mainly following the strengthening of internal regulations and first- and second-level controls.

At the network level, the main areas of improvement involved the collection and archiving of mandatory customer documentation. In order to guarantee an adequate control of the risks inherent in filing paper documents produced at the branch, as well as to ensure a uniform conduct by the network, the Bank has set up a specific initiative, the "Document & Case Management" project, aimed at ensuring the dematerialization of mandatory documentation.

### **Credit, counterparty, market, operational risk**

With regard to the credit risk (IRRB Systems), the assessments of the Internal Validation (GRM) and Internal Audit Functions, respectively "overall compliant" and "regulatory requirements overall met at the Group level", agree that the IRRB systems are compliant with regulatory requirements. The overall assessment of the Internal Audit Function, "partially satisfactory", which is an improvement compared to the "unsatisfactory" rating expressed in 2016, essentially takes into account the fact that the managerial actions were directed towards overcoming the critical issues encountered in the previous year.

The Internal Validation Function has shown that most of the previously identified critical issues ascribable to the Italy Internal Models have been addressed. The actions to resolve the shortcomings of the GW Models (Group Wide Rating Models), which emerged and became stratified in previous years, are also addressed, although there is still room for improvement, particularly for the common EAD and LGD model.

The GW Models were assessed by the Internal Audit Function in 2017 as "partially satisfactory" ("unsatisfactory" in 2016) and, during the year, specific audits were conducted with "unsatisfactory" outcomes on the GPF (Global Project Financing) and the Sovereign Rating System. With regard to counterparty, market (IMOD) and operational (AMA) risks, the assessments of the Internal Validation and Internal Audit Functions, respectively "adequate" and "satisfactory", agree in considering that the related systems comply in full with the regulatory requirements.

The Board of Statutory Auditors took note of the aforementioned assessments of the relevant Functions and of the overall improvements achieved. It believes that the recent regulatory developments (EBA Guidelines in force from 1 January 2021), the current quality of the models, together with the directions of the Supervisory Authority on the governance of internal models for credit risk (findings reported in the "SREP Letter" issued by the ECB in December 2017) require that the Group make a strong commitment to manage the IRB models over the next three years.

To this end, the BoSA considers fundamental the execution of the multi-year plan for internal credit risk models defined for the entire Group "2018-2020 IRB Model Roadmap - MYP", approved by the Board of Directors at the meeting of 14 November 2017 and aimed at addressing the short/medium term priorities.

This is a challenging Plan for 2018, which requires a permanent and robust steering function by the Parent Company.

The objectives of the aforementioned MYP include the assessment of a consistent rationalization of the number of IRB models (with the dismissal, for example, of IRB models relating to specific non-significant portfolios), also strongly advocated by the Supervisory Authority, as well as the review of the remaining models to ensure ongoing compliance with EBA standards and address specific findings.

Achieving uniformity of the models in the Group, with the awareness of the persistence of governance systems that are still different, is also an objective included in the MYP, and the BoSA advocates a consistent focus on it.

The BoSA has found an essential commitment of Management to methodically put into practice concrete actions aimed at making the defined objectives achievable.

The reorganization prepared in the GRM, which saw the definition of the centralised Internal Validation Function with direct reporting to the Chief Risk Officer in order to achieve a single, rigorous validation process, represents one of the various actions undertaken in this regard. The operational effectiveness of the new organizational model, whose validity theoretically appears to be shareable, must in any case be tested over time by the Internal Audit Function.

The implementation of the Group Credit Risk Governance project, launched at the end of 2015, is also significant for a positive overall result. The Board of Statutory Auditors noted in particular the launch of the Model Management System (which will allow to have a single repository for documentation and a single integrated approach for managing the internal and external findings at the Group level) and the great attention reserved for aspects of Data Quality.

On 27 February 2018, the Board of Statutory Auditors issued its favorable opinion for the certification by the Board of Directors of the existence of the requirements for using the Group's credit, counterparty, market and operational risk management, measurement and control systems.

The BoSA carried out several in-depth analyses with the relevant structures, also with the help of a sample selection of positions, in order to examine the processes in place and relating to the various credit phases (underwriting, disbursement, monitoring, restructuring, classification, assessment). It also analysed jointly with the External Auditors some credit exposures selected by the Board of Statutory Auditors and included in the sample chosen by the External Auditors for the statutory audit of the financial statements at 31 December 2017. It took note of some audit reports issued in the period with a "satisfactory" outcome, in particular: "Global Audit on Credit Monitoring Process and Classification of Performing Loans Portfolio", "ICS on Collateral Management", "Audit on Forbearance - follow up".

The BoSA, in identifying the actions carried out by the structures in order to create internal information tools and procedures as standardised as possible in the context of credit processes, recommends constant attention in this regard, also for the purpose of an overall refinement of the information and reporting to the relevant structures and bodies.

The Board of Statutory Auditors took note of the implementation of managerial actions ("strategic and operational plan to address the high level of NPEs - Non Performing Loans") carried out with reference both to the reduction of the NPE stock through a quantitative approach, and to the definition of procedures and guidelines in line with those issued by the EBA in March 2017, receiving updates from the relevant Functions and monitoring the consistency with the Plan as well as the periodic information to be provided to the ECB.

#### **Compliance risk**

The Board of Statutory Auditors took note of the Annual Report of the Compliance Function, which includes the assessments formulated by the Compliance Function with regard to potential compliance risks, at the Group level, with reference both to Italian companies, including UniCredit S.p.A., and to the main foreign companies.

The aforementioned Report also fulfills the requirements set forth in Art.16 of the CONSOB/Bank of Italy Joint Regulation of 28 October 2007.

Taking into account the results of the performed risk assessment and second-level controls, the essential completion of all the activities carried out as required by the 2017 Compliance Plan and the support for the implementation of the Bank's Strategic Plan, "Transform 2019", the Compliance Function has expressed a "mostly satisfactory" judgment regarding the management of non-compliance risk.

The overall situation at the end of 2017 is in line with that of last year (the areas with Limited or Medium risk constitute 95% of the covered regulatory areas). At the Group level, no regulatory area has Critical risk levels and only 5% shows Significant levels. The necessary mitigation actions are in the implementation phase, in line with the respective plans.

The BoSA welcomed the actions and initiatives implemented in 2017 by the Bank in order to strengthen and further promote the Group's compliance culture, targeted for each of the 5 pillars of the Compliance Culture Framework (support of Top Management and Tone from the Top, Governance and processes, learning and development, communication and people engagement, and performance appraisal).

In this regard, particular attention was given to the Global Policy - Code of Conduct, which in 2017 renewed the Group Code of Conduct, based on the Group's values and on the principles to which all UniCredit employees and partners must comply in order to ensure the highest standards of professional conduct and integrity related to their activities within or on behalf of UniCredit. In 2017, the "Global Policy - Compliance Culture" issued at the end of 2016, was adopted by all the companies in the Group, defining the principles and guidelines for establishing, promoting and supporting a compliance culture.

The training activities were also strengthened and further developed in 2017, constantly monitoring the level of fruition at the Group level.

The BoSA hopes to maintain the strong focus expressed by the Top Management on the "Culture" factor, considered a strategic element for the Group's overall sustainability.

The Board of Statutory Auditors received a report on the Group Rules implementation by the Group companies. At the end of 2017 only 1% of the Rules were in "delay", mainly attributable to Group Rules issued during the year, which is expected to be overcome by the end of the first half of 2018.

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The Board of Statutory Auditors took note of the actions taken in 2017 aimed at increasing compliance at the Group level through the design and implementation of new second-level controls and the refinement of existing ones, with particular reference to controls of the Anti-Money Laundering, Financial Sanctions, Antitrust, Market Abuse, EMIR, and Conflicts of Interest areas. Furthermore, two new control catalogues have been created for the "Gestione Accentrata" (centralised management) and Payment Account Directive areas.

The BoSA also examined the changes adopted with reference to the compliance risk assessment method, updated with the definition of a single mode of execution applicable to all the relevant regulatory areas in order to:

- align with the markets standards;
- improve the harmonization between the Group companies;
- increase the level of granularity of the analysis.

The Board of Statutory Auditors noted that the number of written complaints received in 2017 (No.30,718) decreased by 4.4% compared to 2016. The "Loans and Mortgages" category continues to represent the majority of complaints received (about 54%), which nonetheless decreased by 4.2% compared to 2016. In this category, the number of complaints regarding Salary-Backed Loans (CQS) is the most significant and is still increasing (+25%), but with growth rates lower than in previous years (many of these complaints, around 20%, refer to names that are not customers of the Bank). Complaints concerning the methods for calculating the rates applied to mortgage loans indexed to the Euribor have decreased by 76% (year on year).

Furthermore, about 21% of the complaints received refer to the "C/A and collection and payment transactions" category, down by around 15% compared to 2016; about 22% regards the "Other" macro-category, up about 9% compared to 2016. Most of these complaints are attributable to so-called "generic complaints".

Finally, complaints relating to "Investment Services" amount to around 3% of the total, down by around 15% compared to 2016.

The Board of Statutory Auditors took note of the "Report of the Anti-Money Laundering Function of UniCredit S.p.A. - Italian Perimeter - 2017" presented to the Board of Directors of UniCredit at the meeting held on 5 March 2018.

In 2017, the activities carried out in UniCredit - Italy Network & Holding for the self-assessment of the risks of money laundering and terrorism financing, led to attributing the "Significant" level of residual risk, which increased compared to the "Medium" level of the third quarter of 2017 and the "Limited" level of 2016. The increase in the residual risk recorded in the third quarter of 2017 refers exclusively to the adoption of the new assessment method presented to the UniCredit Board of Directors in December 2017, which increased the level of inherent risk from "Medium/Low" to "Medium".

The further increase in level of residual risk from "Medium" to "Significant" was determined by:

- the number of findings (mostly related to the "KYC - Know Your Client - due diligence" activities and the implementation of second-level controls) issued by the Internal Audit Function in the report published in December 2017 with "satisfactory" results. The related corrective actions have been identified and their implementation, which is in progress and due to be completed by 2018, is expected to gradually decrease the current level of risk;
- the outcome of the second-level controls that highlighted points of attention concerning the backlog in the periodic review of the customer's proper verification.

The BoSA was informed of the outcomes of an preliminary inspection (which involved the Italian banking system), carried out by the Bank of Italy on the UniCredit Group regarding procedures for identifying and adequately verifying politically exposed persons (PEPs) and the activities implemented to remedy the identified areas for improvement (identification, profiling and adequate verification phases) and, for those still to be completed, the indication of the expected deadlines for their definitive implementation.

The Board of Statutory Auditors therefore recommends a particular focus on the revision/renewal of customers due diligence, with the constant commitment to paying attention to anti-money laundering issues, in order to make the Bank's operations more and more compliant with the provisions of the Bank of Italy given the changing nature of the threats posed by money laundering and terrorism financing.

The Board of Statutory Auditors took note of the progress of the ALBA Project in relation to the gaps identified in the internal survey carried out in the UniCredit Group, to further analyze, among other things, the aforementioned compliance with US rules and regulations on Financial Sanctions (OFAC) (see the paragraph above "Supervisory activities on financial reporting"). The overall implementation of these activities, aimed at achieving full compliance of the risk management with the requirements defined by the Project, was completed towards the end of 2017, according to the timelines set in the "Global Remediation Plan" of the Project itself. The Board of Statutory Auditors recommended continuing to provide the utmost cooperation to the US Authorities.

The Board of Statutory Auditors took note of the information contained in the Report on the internal violation reporting system (so-called Whistleblowing) for 2017, prepared pursuant to the Bank of Italy's Oversight Provisions (Circular 285/2013 Part One, Title IV, Chapter 3, Section VIII "Internal violation reporting systems", which summarises the information concerning the 37 (23 in 2016) reports received at UniCredit S.p.A. over the course of 2017, none of which were serious enough to be brought to the attention of the Board of Statutory Auditors and the Chief Executive Officer or, subsequently, of the Board of Directors.



It is noteworthy that on 14 December 2017, Law No.179 was published, introducing new provisions for the protection of persons reporting crimes or irregularities that they have become aware of in the context of a public or private employment relationship.

This law establishes, among other things, the nullity of any retaliatory or discriminatory dismissal of the Whistleblower (whose identity cannot be disclosed) or a change of duties or other retaliatory or discriminatory measures taken against the whistleblower.

UniCredit's internal Whistleblowing process complies with the requirements of the new Law.

Lastly, the Board of Statutory Auditors took note of the "MiFID" Report set forth by Art.13 of the CONSOB/Bank of Italy Joint Regulation of 28 October 2007, prepared by Group Risk Management.

### **ICT Risk**

The BoSA examined with the competent structures what happened during the episode of the IT intrusion suffered at the end of July 2017 by the Bank in Italy, resulting in unauthorised access to data of Italian customers, related only to personal loans. This access took place through an external Italian business partner. The Bank specified that no data was acquired that could allow access to customer accounts or allow unauthorised transactions.

The BoSA took note of both the urgent actions taken to resolve the most critical weaknesses and the defined crash programme, also taking into account the fact that there was no evidence of fraud or attempted fraud against the customers involved. The investigation by the Milan Public Prosecutor, with which the Bank formalised a complaint, is still underway.

The BoSA also analysed the results of the audit carried out by the Bank following the incident, particularly focused on the management methods of the Third Party Networks and related accesses.

During the year, the Board of Statutory Auditors paid particular attention to the issue of ICT Risk and also received a broad overview during the October 2017 session of the IC&RC, during which the document "Overview of ICT and ICT security risk governance" was presented by the Co-Chief Operating Officer.

The BoSA examined the document "Overview on ICT and ICT security", divided into different sections and presented to the Board of Directors on 5 March 2018, taking note of the main measures adopted in 2017 and of the plans for 2018 in order to govern the ICT in general and mitigating risks and, in particular, the number and cause of the incidents. With regard to the latter, the BoSA took note of the efforts made to achieve greater timeliness and accuracy in tracking them and the resulting reports, as well as the stabilization and mitigation initiatives.

The BoSA took note of the assessment carried out by the competent structure on "Adequacy and Costs of ICT", also presented to the Board of Directors on 5 March 2018, which indicates results overall in line with the objectives and stable with the previous assessments, and of the "Summary report on Group ICT strategy", in line with the EBA Guidelines on "Common procedures and methodologies for the supervisory review and evaluation process (SREP)".

The Board of Statutory Auditors examined the "Business Continuity Plan", submitted to the Board of Directors in its meeting of 5 March 2018, updated based on the evolution of the main cyber-attack risks in line with the latest international standards (ENISA European Network and Information Security Agency) and related risk assessment, the revision of the internal "Emergency and Crisis Management" policy, the type of security incidents and their internal communication process.

The BoSA also received updates from the External Auditors regarding the assessments of the information systems of the Bank and the Group (ISAE 3402 E&Y). The Board of Statutory Auditors also took note of the "2017 Operational Risk Report and ICT & Cyber Risk Exposure" reports presented by Group Risk Management, and "Outsourcing of business activities - Group Internal Audit Annual Report presented by Internal Audit, with a "satisfactory" rating in relation to the effectiveness and efficiency of the business continuity process in the Group.

The Board of Statutory Auditors noted the increased focus of the Bank on IT risk as a whole. A Group strategy on ICT was defined with actions aimed at five priorities: optimise and automate IT & Back Office Operations, innovate Architecture for Faster Digitalization, ensure fully engaged IT staff, evolve Sourcing Models, embedded IT Risks & IT Security and related concrete actions.

The Board of Statutory Auditors recommends a continued strengthening of the IT infrastructures in consideration of the overall growth of cyber threats.

With reference to further reporting containing information on the internal control and risk management system, the Board of Statutory Auditors has noted that, at the date of this report, the assessment of the adequacy of the allocation of Group capital (ICAAP) is underway by the structures in charge, together with the assessment of the overall functionality of the Internal Liquidity Adequacy Assessment Process (ILAAP).

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The Board of Statutory Auditors examined the "2017 Group ICS Management Evaluation Assessment" document, prepared by the Group ICS Initiatives Function reporting to the Chief Operating Officers, aimed at supporting the Board of Directors in assessing the completeness, adequacy, functionality and reliability of the Group Internal Control System as a whole.

Based on the self-assessment carried out by Management in 2017, the Group's internal control system (26 companies subject to self-assessment by the reference Management) was rated overall as "mostly satisfactory", consistently with the aforementioned rating expressed by the Internal Audit Function.

The Board of Statutory Auditors, in identifying the areas of attention identified by the Management, mainly related to the governance and redesign of internal credit models, the dissemination of the Group's risk culture, the operational risk and business practices, compliance, data protection, IT risk and IT security, took note of the initiatives taken or being finalised, aimed at further strengthening the system of internal controls and risk management, in line with the Transform 2019 Strategic Plan.

Lastly, the Board of Statutory Auditors took note of the Report concerning the first half of 2017 of the 231 Oversight Body (hereinafter also "231 OB") on the implementation of the Organization and Management Model adopted by UniCredit S.p.A. pursuant to Italian Legislative Decree No.231/2001. In light of the results of the controls and activities carried out in 2017, the 231 OB did not report any significant anomalies. The 231 Oversight Body Report for the second half of 2017 will be presented to the Board of Directors in April 2018.

In conclusion, the Board of Statutory Auditors did not identify critical situations or facts that could make the internal control and risk management system as a whole inadequate, even though situations that required the planning and addressing of specific corrective actions did emerge. Lastly, the Board of Statutory Auditors acknowledges the increased and renewed reactivity and proactive nature of the Management in relation to the definition and operational implementation of the actions to improve and remedy the detected weaknesses and shortcomings.

### 10. Oversight of the adequacy of the organizational structure

As part of the implementation of the Transform 2019 Strategic Plan (third pillar "Transform our operating model"), the optimization of the organizational model continued, approved by the Board of Directors in 2016.

In consideration of the fact that the organizational and managerial structure is an integral part of the Bank's and the Group's transformation plan, the BoSA acknowledges that the Group's structure reflects an organizational and business model that guarantees the autonomy of the countries and local banks on specific activities in order to guarantee increased proximity to the client. This model also guarantees efficient decision-making processes and considers a divisional structure for the governance of certain businesses/products, as well as overall control on supporting corporate Functions.

The Board of Statutory Auditors examined the report prepared by the competent Group Human Capital structure which considers the organizational structure of UniCredit S.p.A. to be adequate, by virtue of the robustness of the overall regulatory framework that ensures the uniqueness of the system of responsibility and powers with reference to the bodies/committees and the corporate structures.

The current organizational structure is focused on the following main areas of responsibility:

- the Chief Executive Officer exercises direct control, in particular on defining Group Strategy, Risks, Compliance, Human Resources, optimization of the cost structure and the main operating activities;
- the General Manager is responsible for all business activities (Retail, Corporate, Wealth Management (new structure formalised in January 2018), Global CIB, Asset Gathering, in the countries in which the Group operates), with a focus on the continuous development of customer service, in order to maximise cross-selling, guide the Group's digital strategies, as well as define the Bank's new service model;
- the Chief Operating Office (COO), a position held by two co-Heads (co-Chief Operating Officers), is responsible for supervising the activities of Finance, Cost Management, IT & Operations, Security;
- the CIB Division, a position covered by two co-Heads reporting directly to the General Manager, has a role of coverage for multinational clients, for selected "Large Corporate" customers with a strong potential demand for investment banking products, as well as for Financial and Institutional Groups (FIG), and is responsible for Global Product Lines Global Transaction Banking (GTB), Global Financing & Advisory (F&A), Markets, as well as internationalization activities;
- as regards the Italian perimeter, the co-Heads of the "Italy" structure, reporting to the General Manager, are responsible for defining the business strategies of the "commercial bank" and for the steering, coordination and control of the networks;
- the CEE Division, reporting directly to the General Manager, coordinates the Group's activities in the Central and Eastern Europe area in which the Group operates;
- Group Institutional Affairs and Group Regulatory Affairs (new macro-set-up approved by the Board of Directors in January 2018), both reporting to the CEO, are respectively responsible for the development of relations with institutional counterparties of interest for the Group as well as the management of relations with the banking Supervisory Authorities at the European level (e.g. EBA, ECB) and with the Bank of Italy;
- the various Functions defined as Competence Line (Internal Audit, Planning, Finance & Administration, Risk Management, Lending, Legal, Compliance, Identity & Communications, Human Capital) maintain, each within their remit, the responsibility for the steering, coordination and control of the Group's activities and related risks.

The Board of Statutory Auditors examined the main organizational changes that took place in 2017, including the new organizational model of the Risk Management Function of UniCredit S.p.A., with a focus on the following changes:

- August 2017: establishment of Group NPE as a structure reporting directly to Group Risk Management, which is responsible for developing the strategy and supervising the management, the process, the objectives and the transfers of the NPEs, the repossessed assets and any other impaired portfolio for the entire Group;
- October 2017: review of the scope of responsibility of the Group Chief Risk Officer (Group CRO), reporting directly to the Chief Executive Officer, who focuses on the risk management responsibilities and on the second-level control activities, as well as the establishment of a Chief Lending Officer, head of the newly established Group Lending Office, to oversee lending activities in compliance with risk management strategies, policies and guidelines;
- October 2017: shift of the Group Internal Validation structure reporting directly to Group Risk Management, in order to ensure full segregation of the validation activity from the model development activity.

The Group Chief Risk Officer (Group CRO) heads the activities aimed at the strategic steering (including credit risks), the definition of the Group risk management policies and the risk limits, the development of models and methodologies for risk measurement, coordination and management of the validation activities of risk measurement systems, as well as, in particular, governance and control, for UniCredit S.p.A. and at the Group level, of the Risk Appetite Framework - RAF, of the Internal Capital Adequacy Assessment Process ICAAP and of the Group risks.

The Group CRO also maintains responsibility at the Group level for the development of the strategy (and the guide/supervision of its execution) for managing its various phases up to the sale of the Non-Performing Exposures - NPEs, repossessed assets and other deteriorated portfolios. The Group CRO and the CLO jointly define the criteria/rules for the identification of assets and positions to be allocated to the sale as well as the targets on the portfolio.

The GLO, under the responsibility of the Chief Lending Officer, is responsible for coordinating and managing the underwriting and credit provision (assessment of the creditworthiness of the counterparties of UniCredit S.p.A., credit approval in the context of delegated decision-making powers or formulation of the associated proposals to the relevant decision-making Bodies, also for the purpose of issuing the so-called non-binding opinion (credit NBO) on the applications presented by the Group Companies), as well as the post-resolution phases, ensuring adequate monitoring of the outstanding positions, credit collection activities (customer recovery) and the management of restructuring and workout activities for positions held by the Parent Company.

The Board of Statutory Auditors deems the organizational model suitable, with the indicated organizational changes, in light of the guidelines of the Supervisory Authorities and the pursuit of the objective of continuous improvement of the credit processes (in particular the Italian perimeter), also through an improvement of the credit culture and a separation of functions, consistent with strategic guidelines and credit policies. Welcomes the change aimed at strengthening the independence of the Group Internal Validation structure and promoting a stronger role of the latter to ensure greater steering of the Parent Company towards the local Model Validation Functions.

Also taking into account the attention that the Supervisory Authority gives to these issues and without prejudice to the main activities pertaining to Internal Audit, the BoSA will monitor the actual implementation and related effectiveness of said organizational changes, given their relevance for a proper and adequate organizational structure for risk control and credit management.

In addition, the BoSA took note of the establishment, in September 2017, of the Group Administrative & Analytics Office (GA&AO), reporting directly to the Chief Operating Office, responsible for the Group's steering and coordination at the Group level and the management for UniCredit S.p.A. of the balance sheet and tax matters, as well as the development and implementation of the data management and use strategy.

Finally, the BoSA examined the changes that occurred in the area of the Chief Operating Office regarding the reorganization of the Group's IT and Operations Functions (UBIS). The BoSA welcomed the underlying objectives, aimed at ensuring lean & steering coordination, streamlining of processes, greater efficiency and a more direct and transparent relationship with the business. In particular, in order to guarantee continuous attention to the ICT strategy and the correct provision of customer services, the new roles of the CIO Chief Information Officers have been introduced. The newly-established Transformation Office will guide UBIS in this period of transformation and will monitor the quality of services and customer satisfaction while the new Tech structure will oversee the quality of the IT services to support the business with the aim of ensuring an innovative and economically sustainable ICT infrastructure.

The BoSA will follow, also with regard to the organizational changes mentioned above, their actual implementation, given the ever-increasing importance of the ICT risk.

In the wake of the analysis activities already carried out in 2016 with regard to the DeLorean transaction, the BoSA, also following a consultation with the JST (Joint Supervisory Team - European Central Bank), considered it appropriate to deepen in 2017 the organizational model and the information flows after the operation's execution.

## Report of the Board of Statutory Auditors

In particular, the BoSA examined with the competent Functions the effects associated with:

- the end of Bank Austria AG's role of sub-holding (including the need to issue specific policies);
- the new methods of operational management of the liquidity of the CEE area (now implemented by the Parent Company with responsibility for the Liquidity Reference Bank - LRB of the CEE);
- the organizational and HR profiles;
- the Permanent Establishment (PE) structure in Vienna.

The Board of Statutory Auditors took note of the steering initiatives implemented and in progress to strengthen the post-DeLorean structure, in particular those related to monitoring and reporting, mainly with regard to the management of liquidity, as also highlighted by the Regulatory Authority.

In addition, the Board of Statutory Auditors was able to interact during meetings held in Vienna in November 2017 with the Chairman and Deputy Chairman of the Audit Committee of Bank Austria AG, as well as with the Chairmen of the Audit and Risk Committee of the Group belonging to the CEE area, as part of the periodic initiative organised by the Chairman of the IC&RC, thus having the opportunity to further investigate the issues concerning the implementation of the DeLorean transaction and some specific profiles of the aforementioned Companies.

In light of the entry into force of the new legislation concerning the protection of individuals with regard to the processing of personal data (EU Regulation No.679/2016), the Board of Statutory Auditors examined the GDPR General Data Protection Regulation, which provides for the involvement of all the main Group companies, including UBIS, with the aim of ensuring compliance at the Group level with the requirements of the new European regulation. The project, through a gradual, risk-based approach, sets forth the implementation of the main requirements of the Regulation (implementation of ICT processes/interventions, such as the right to portability, information and consent, processing registry, management of any data breaches and Data Protection Impact Assessment) by 25 May 2018, date of entry into force of the regulation. In February 2018, the Board of Directors appointed the Data Protection Officer (DPO) of UniCredit S.p.A.

The Board of Statutory Auditors issued its favorable opinions required by the relevant regulation regarding the suitability of the proposed candidates, in the rotation of the following company roles:

- Group Chief Risk Officer (effective from 1 October 2017);
- Manager in charge with preparing the financial reports (effective from the day after the approval of the 2017 draft financial statements by the Board of Directors of UniCredit S.p.A.);
- Head of the Anti-Money Laundering Function (for the Italian perimeter - effective from 1 December 2017).

### **Suitability of Control Functions and Activity Plans**

#### *Internal Audit Function*

The BoSA took note of the "generally conforms" outcome of the internal quality assurance review completed in October 2017 by Ernst & Young on the Internal Audit Function of UniCredit S.p.A., which represents the highest rating in the scale and expressed its appreciation for the results of the external assessment, with particular regard to the independence of the Function.

The 2017 Audit Plan is overall achieved.

The BoSA examined the 2018 Audit Plan (as an integral part of the Multi-year Audit Plan) approved by the Board of Directors in January 2018. This Plan, in addition to providing for coverage of the Group's main risks, takes into account legislative and regulatory developments. The planning, based on the riskiness of the activities/processes, includes on-site and off-site activities, also using remote control methods for the Retail structures as well as measures aimed at acquiring an end-to-end assessment of the processes at the Group level.

The BoSA therefore has noted the number of resources included in the Function, of the job rotation initiatives undertaken with the Business Functions and with the other Control Functions aimed also at improving the dissemination of the risk culture. On the basis of the information acquired, the BoSA deems adequate the current capacity of the Function to perform its duties, essentially stable compared to the previous year.

#### *Group Risk Management*

The Board of Statutory Auditors has noted that the Board of Directors, in the session of January 2018, approved the 2018 Group Risk Management Function (GRM) Plan of activities, developed also taking into account the overall context of the requests of the European Central Bank and the evolution of the regulatory context.

On the basis of the information acquired, the BoSA considers the size and capacity of the GRM Function to be adequate for achieving the objectives set out in the 2018 Plan, even though this Control Function will have to deal with size reductions whose impact, however, is already considered in the plans for the structure activities. The BoSA recommended the need not to disperse the existing qualified skills and expressed the hope that the implementation of the deep organizational reorganization will be functional to the pursuit of the challenging objectives, particularly:

- focusing on asset quality in line with the 2019 Transform Plan;
- resolving the findings of the Regulators and Internal Audit, ensuring discipline in the execution;
- strengthening the governance, with the aim of increasing the consistency of conduct and steering at the Group level;
- completing the NPE Multi-Year Plan and the Model RoadMap.

#### *Compliance Function*

The BoSA took note of some organizational changes that took place in 2017, aimed at renewing and simplifying the structure of the Function, in particular the extension of the scope of competence of the Group Anti Financial Crime Compliance structure, in order to create a single Compliance unit for the Group and for UniCredit S.p.A. regarding anti-money laundering, counter-terrorism, financial sanctions and anti-corruption. A structure was set up to monitor compliance risk in terms of Financial Sanctions both at the Group level and for UniCredit S.p.A., called Group & Italy Financial Sanctions.

The Board of Statutory Auditors examined the 2018 Activity Plan of the Function (approved by the Board of Directors during the February 2018 session). Such Plan provides for an overall reduction in the number of resources engaged in the Function and therefore in the overall capacity, given the overall reduction of the Group's personnel envisaged by the 2019 Transform Plan.

On the basis of the information acquired, the Board of Statutory Auditors deems the capacity of the Function adequate in light of: i) the provisions of the Compliance Plan; ii) the availability of budgets for possible external and/or outsourced consulting; iii) the fact that the capacity is essentially in line with the industry average, in particular with respect to peers with a business structure similar to UniCredit.

The BoSA also examined the main drivers that make it possible to consider the capacity of the Function suitable for completing the 2018 Compliance Plan, even in view of the numerical reduction of the resources involved, in particular: (i) the automation of certain activities, (ii) the unification of some tools, (iii) the greater diffusion of the Compliance Culture at all levels of the Group, (iv) the strengthening of the skills of the Competence Line people, with specific certification and training paths, (v) the managerial commitment that has contributed to favor the increased reactivity of the Bank's structures to the findings of Internal Audit and Compliance.

### **11. Remuneration Policies**

The Board of Statutory Auditors noted that the Board of Directors, in its meeting of 5 March 2018, approved the document "Group 2018 Remuneration Policy" and the related Board of Directors' Report to be submitted to the Shareholders' Meeting. This document defines the principles and standards used to design, implement and monitor the Group's remuneration systems, as part of the review of the Group's strategy described in the 2016-2019 Strategic Plan, which confirms the pre-existing pillars with renewed architecture.

The Board of Statutory Auditors took note of the report issued by the Internal Audit Function "2017 Remuneration Policies and Practices", which ends with the formulation of a "satisfactory" rating.

Finally, in compliance with current legislation, the Board of Statutory Auditors examined the proposals for:

- Goal Setting 2018 for the Chief Executive Officer, the Co-Chief Operating Officer - Manager in charge with preparing the financial reports and the Head of the Internal Audit Function of UniCredit S.p.A.;
  - 2018 remuneration review for the Co-Chief Operating Officer - Manager in charge with preparing the financial reports and the Head of the Internal Audit Function of UniCredit S.p.A. (for the Chief Executive Officer, it remained unchanged compared to the previous year);
  - review of the 2017 bonus for the Co-Chief Operating Officer - Manager in charge with preparing the financial reports and the Head of the Internal Audit Function of UniCredit S.p.A. (no 2017 bonus proposal was formulated for the Chief Executive Officer in view of the fact that the 2017-2019 LTI Long-Term Incentives Plan replaces the variable bonus for the entire duration of the Plan),
- and verified the correctness of the Bank's adopted process and criteria, including the consistency with the relevant legislation, thus expressing its favorable opinions.

### **12. Non-Financial Statement**

The Board of Statutory Auditors, taken note of Italian Legislative Decree No.254/2016 on the disclosure of non-financial information and the Implementing Regulation issued by CONSOB with a resolution dated 18 January 2018, exercised its functions by supervising the compliance with the provisions contained therein regarding the drafting of the Non-Financial Statement (hereinafter also "DNF") as part of the Integrated Financial Statements, approved by the Board of Directors on 5 March 2018.

The Board of Statutory Auditors held various meetings with the Function responsible for drafting the DNF, the representatives of the appointed External Auditors (Deloitte & Touche) and examined the documentation made available. The BoSA also analysed the Assonime Circular No.13 of 12 June 2017, a commentary on Italian Legislative Decree 254/2016. In November 2017, it also noted the issuance of the Global Process Regulation "Preparation of Non-Financial Information for the Integrated Report Production", aimed at defining the roles, responsibilities, activities, controls and information flows for coordination between the Parent Company and the Companies and structures of the Group.

## Report of the Board of Statutory Auditors

The BoSA also acknowledged the report issued by the External Auditors on 12 March 2018 which states that no elements were received that would suggest that the DNF of the UniCredit Group has not been drafted in all significant aspects in accordance with the reference legislation.

On the basis of the information acquired, the Board of Statutory Auditors attests that, in the course of its examination of the Non-Financial Statement, elements of non-compliance and/or violation of the relevant regulatory provisions have not come to its attention.

### 13. Additional activity by the Board of Statutory Auditors' and information requested by CONSOB

In performing its duties, as prescribed by Art.2403 of the Italian Civil Code and Art.149 of Italian Legislative Decree 58/1998 (TUF), the Board of Statutory Auditors:

- exercised oversight on the implementation of the corporate governance rules contained in the codes of conduct that the Company declares to abide by. UniCredit S.p.A. complies with the Corporate Governance Code promoted by Borsa Italiana S.p.A. and has prepared, pursuant to Article 123-bis of Italian Legislative Decree No.58/1998 (TUF), the annual "Report on Corporate Governance and Ownership Structure" which provides information on:
  - i) the corporate governance practices actually applied;
  - ii) the main features of the risk management and internal control systems;
  - iii) the functioning mechanisms of the Shareholders' Meeting, its main powers, the rights of Shareholders and the procedures for exercising them;
  - iv) the composition and functioning of the administrative and control bodies and their committees as well as the other information required by Article 123-bis of Italian Legislative Decree No.58/1998 (TUF);
- exercised oversight of the adequacy of the instructions given to subsidiaries pursuant to Art.114, paragraph 2 of Italian Legislative Decree 58/1998;
- exchanged information with the Boards of Statutory Auditors of the directly controlled companies as required by Art.151, paragraph 2, of Italian Legislative Decree No.58/1998 (TUF) and by the Supervisory Instructions of the Bank of Italy. In January 2018, in addition to an exchange of correspondence, the Board of Statutory Auditors met the Presidents of the Boards of Statutory Auditors of the main Italian companies of the Group, in order to receive reports on any critical issues affecting the administration and control systems and the general trend of corporate activity;
- it carried out its own supervisory activities also through inspections carried out at some branches, business centres and corporate areas in Italy;
- it noted that, as already reported, UniCredit S.p.A. underwent inspections by the Supervisory Authorities, both national and foreign, which highlighted the presence of some findings related to management aspects, organizational profiles, control and compliance, for which UniCredit S.p.A. has drawn up multi-year plans for corrective actions that involve specific project initiatives, whose implementation must be completed in timely compliance with the timetable notified to the Supervisory Authorities;
- in accordance with the regulations and customary practices, the BoSA met several times with the Supervisory Authorities for the purpose of a fruitful exchange of information on subjects of mutual interest, including specific issues illustrated in this report.

The Board of Statutory Auditors received communications and/or petitions also qualified as such pursuant to Art.2408 of the Italian Civil Code. The following are noted in particular:

- a communication dated 14 April 2017, received by certified email from the shareholder Mr. Marco Bava;
- a communication dated 19 April 2017, received by certified email from the shareholder Mr. Marco Bava;
- a communication dated 11 May 2017, received by certified email from the shareholder Mr. Pierluigi Carollo;
- a communication dated 22 May 2017, received by certified email from the shareholder Mr. Tommaso Marino;
- a communication dated 5 June 2017, received by certified email from the shareholder Mr. Tommaso Marino;
- a communication dated 10 July 2017, received by certified email from the shareholder Mr. Tommaso Marino;
- a communication dated 3 November 2017, received by certified email from the shareholder Mr. Tommaso Marino;
- a communication dated 20 November 2017, received by certified email from the shareholder Mr. Tommaso Marino;
- a communication dated 11 December 2017, received by certified email from the shareholder Mr. Marco Bava;
- a communication dated 27 December 2017, received by certified email from the shareholder Mr. Tommaso Marino.

The Board of Statutory Auditors, in response to each received report, acted promptly in all cases to gather the necessary information from the competent structures to examine and evaluate the cases in question, sharing, in all cases, the reasonableness of the conclusions drawn by these structures.

During the year, the Board of Statutory Auditors issued the opinions and expressed the observations that the current regulations and supervisory provisions for banks assign to its responsibility.

Furthermore, the Board of Statutory Auditors reports that:

- it has taken note of the self-assessment required by the regulatory provisions, carried out by the Board of Directors in the meetings of 7 February and 5 March 2018;
- in addition to the Board meetings, it participated in off-site meetings dedicated, among other things, to the implementation and review of the Group's strategies;
- it verified, as required by the Corporate Governance Code issued by Borsa Italiana S.p.A., that its members fulfill the same requirements of independence required for Directors;
- it found that the criteria and procedures establishing the requirements of independence adopted by the Board of Directors for the annual assessment of the independence of its members were correctly applied;
- it found that the Board of Directors carried out the verification of the positions held for the purposes of the interlocking prohibition pursuant to Article 36 of Italian Legislative Decree 201/2011;
- it oversaw that transactions undertaken with persons with administrative, managerial or control functions were always conducted in compliance with Art. 136 TUB and Supervisory Instructions.

The Board of Statutory Auditors does not deem it necessary to exercise the option of making proposals to the Shareholders' Meeting pursuant to Art. 153, second paragraph, of Italian Legislative Decree 58/1998.

### **Corporate Governance**

The Board of Statutory Auditors of UniCredit S.p.A. operates within the framework of an integrated governance and of adequate and structured internal corporate information flows. The BoSA took note of the information provided in the Report on Corporate Governance and Ownership Structures, approved by the Board of Directors during the meeting held on 5 March 2018.

The BoSA, pursuant to the provisions of Circular 285/2013 of the Bank of Italy, carried out the self-assessment on its composition and operation, considering them adequate also in light of its development over time and its differentiation of skills and competences, which ensures the effective ongoing operation of the Body.

During the year, the members of the Board of Statutory Auditors participated in the permanent induction programme for the members of the Board of Directors, based on three-year cycles linked to the BoSA's mandate and prepared also with the support of an external consultant. This programme guarantees a targeted and continuous training that takes into account both the individual and the collective needs of the members of the Body, in order to preserve, among other things, the wealth of technical skills necessary to carry out the role with full awareness.

The Board of Statutory Auditors participated in the meetings of the IC&RC, receiving a periodic report on the issues of common interest. During 2017, it developed the appropriate functional links with the Related Parties and Equity Investments Committee to perform the common activities of the two bodies and to exchange information of mutual interest, while respecting the specific responsibilities.

The Board of Statutory Auditors reported every six months to the Board of Directors and to the IC&RC about the main activities carried out and the recommendations made.

In order to strengthen corporate governance in line with best practices, on 4 December 2017 the UniCredit Shareholders' Meeting approved the following corporate governance changes proposed by the Board of Directors:

- attribution to the Board of Directors of the right to present its own list of candidates for the office of Director and increase in the number of Directors drawn from the second list by number of votes cast;
- elimination of the 5% limit to the exercise of the right to vote;
- mandatory conversion of savings shares into ordinary shares;
- transfer of the registered office from Rome to Milan.

## Report of the Board of Statutory Auditors

### Conclusions

The oversight of the Board of Statutory Auditors revealed no censurable actions, omissions or irregularities requiring to be noted in this Report.

During the meetings of the Board of Directors, during which the most significant economic, financial and equity transactions of UniCredit S.p.A. and its subsidiaries were examined, the Board of Statutory Auditors received the information pursuant to Art.150, paragraph 1, of Italian Legislative Decree 58/1998 (TUF).

Based on the information acquired through its oversight activity, the Board of Statutory Auditors did not become aware of any operations during the period covered by this report performed not in compliance with the principles of proper management, resolved and carried out not in accordance with the law and the Company By-laws, not in the Company's interest, not in accordance with Shareholders' resolutions, manifestly imprudent or reckless, lacking the necessary information where Directors' interests were involved, or prejudicial to the Company's assets.

Having regard to the foregoing, the Board of Statutory Auditors, having examined the reports drawn up by the External Auditors, having noted the joint attestations issued by the Chief Executive Officer and the Financial Reporting Manager, does not find in the areas under its remit any impediment to the approval of the draft financial statements at 31 December 2017 and distribution of dividends submitted by the Board of Directors. In this regard, the Board of Statutory Auditors notes that the Board of Directors assessed the dividend distribution proposal based on prudent assumptions aimed at allowing, linearly over time, the constant compliance with prudential capital requirements.

Milan, 13 March 2018

On behalf of the Board of Statutory Auditors

Chairman  
Pierpaolo Singer







# Report of the External Auditors

**Independent Auditor's Report pursuant to Art.14 of Legislative Decree No.39  
of 27 January 2010 and Art.10 of the EU Regulation No.537/20140**

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## **INDEPENDENT AUDITOR'S REPORT PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010 AND ARTICLE 10 OF THE EU REGULATION 537/2014**

**To the Shareholders of  
UniCredit S.p.A.**

### **REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS**

#### **Opinion**

We have audited the financial statements of UniCredit S.p.A. (the "Bank"), which comprise the balance sheet as at December 31, 2017, the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended and the related notes to the accounts.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at December 31, 2017 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05 and to art. 43 of Italian Legislative Decree no. 136/15.

#### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the ethical requirements applicable under Italian law to the audit of the financial statements. 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 our 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.

<p><b>Key Audit Matters - FINO project: accounting derecognition of a portfolio of non performing loans following transfer through securitization</b></p>	<p><b>Audit procedures in response to the Key Audit Matters</b></p>
<p>On February 1, 2017, as part of the 2016-2019 Strategic Plan, "Transform 2019", the Bank's Board of Directors approved a project concerning the disposal of credit exposures originally classified as bad exposures, referring to different categories, unitarily linked to a portfolio conventionally called "FINO Portfolio".</p> <p>In accordance with the international accounting standard IFRS 5, loans to customers connected to the aforementioned portfolio (with a gross value as at December 31, 2016 of 17,045 million Euro) were recorded in the 2016 financial statements under item "140. Non-current assets and disposal groups classified as held for sale", in consideration of the Bank's expressed intention to proceed with the progressive disposal of the entire portfolio within 12 months at a value of 2,209 million Euro. This valuation, recorded in accordance with IAS 39 (paragraph 63 and AG 84), corresponded to the sale prices deriving from the framework agreements signed by the Bank in December 2016 with two third-party investors.</p> <p>As represented in the report on operations and in <i>Part E – Information on risks and hedging policies</i> of the notes to the accounts, the Directors inform that during the second half of 2017 the sale of the receivables included in the FINO Portfolio was completed with the issue of Asset Backed Securities (ABS) by the Special Purpose Vehicles (SPV) underwriters of receivables. The Bank subscribed 49.9% of all the classes of ABS securities issued and third-party investors 50.1% of all the classes of ABS securities issued. Following the sale, the conditions required by IAS39 for the application of the accounting derecognition from the Balance Sheet of UniCredit S.p.A. were met.</p>	<p>The audit procedures, performed also with the support of experts in securitization and legal transactions belonging to the Deloitte network, and IAS/IFRS international accounting standards experts, have consisted among others, of the following:</p> <ul style="list-style-type: none"> <li>• analysis and understanding of the process of:             <ul style="list-style-type: none"> <li>i) selection of third parties who signed the transfer agreements; ii) approval of the credit transfer operation by the competent bodies of the Bank;</li> </ul> </li> <li>• obtaining and analyzing: i) the contracts formalized with the third parties that have signed the transfer agreements; ii) the relevant correspondence with the Supervisory Authorities; iii) the minutes of the meetings of the Bank's corporate bodies;</li> <li>• analysis of the accounting treatment of the credit transfer operation (through securitization) also through interviews with the heads of the Bank departments and the related organizational units involved, as well as with the Bank's Board of Statutory Auditors;</li> <li>• analysis of the existence of the conditions required by the international accounting standard IAS 39, and in particular paragraphs 18 (a), 20 (a) and 20 (c, i), for the application of the accounting derecognition from the balance sheet of UniCredit S.p.A. receivables included in the FINO Portfolio also by analyzing accounting opinions issued by experts appointed by the Bank's Management;</li> <li>• analysis of the quantitative model used by the Bank to analyze the cash flows relating to the portfolio of non performing loans subject to transfer;</li> <li>• development of additional stress scenarios for the quantitative model used by the Bank to verify the substantial transfer (by the Bank) of the risks and benefits to the portfolio of non performing loans transferred;</li> </ul>

<p>Subsequently, also following the obtainment of the Guarantee on the securitization of non-performing loans (GACS) on the senior tranche (Class A) issued by one of the assignee SPVs, the Bank has implemented the progressive sell down to third party investors of the ABS securities originally underwritten, in order to reduce the amount held below the threshold of 20% through multiple arm's length transactions some of which settled in January 2018.</p> <p>As represented in the notes to the accounts <i>Part C – Income statement Section 6 - Gains (Losses) on disposal/repurchase - Item 100</i> of the financial statement as at December 31, 2017, the economic effects recorded in the financial year 2017 are described in relation to the above-mentioned sale of the FINO portfolio.</p> <p>Considering the complexity of the transaction and the significance of the related accounting effects, we have identified the accounting treatment ("derecognition") of the FINO Project a Key Audit Matter of the statutory financial statements of UniCredit S.p.A. as at December 31, 2017.</p>	<ul style="list-style-type: none"> <li>obtaining external confirmations relating to the portion of the deferred purchase price recorded in the Bank's balance sheet assets under "Loans to customers";</li> <li>obtaining and analyzing the documentation prepared by the Bank for the application for granting the guarantee on the securitization of non-performing loans (GACS);</li> <li>test of the adequate valuation of the Asset Backed Securities subscribed by the Bank and recorded in the financial statements as at December 31, 2017 in the Financial Assets Available for Sale (Senior and Mezzanine tranches) and Financial Assets Valued at Fair Value (Junior tranches) based on values observed from the market transactions some of which settled in January 2018 (Fair Value Level 2) or based on an internal model (Fair Value Level 3).</li> </ul> <p>Finally, we verified the adequacy and compliance of the disclosure provided in the notes to the accounts with respect to the requirements of the applicable accounting standards.</p>
<p><b>Key Audit Matters – Classification and valuation of performing customer loans</b></p>	<p><b>Audit procedures in response to the Key Audit Matters</b></p>
<p>As represented in the notes to the accounts <i>Part B – Balance Sheet Assets</i> and in the report on operations, as at December 31, 2017, performing loans to customers of UniCredit S.p.A. amount to a gross book value of 195,984 million Euro, allowances for impairment to 916 million Euro and the net book value to 195,068 million Euro.</p> <p>The report on operations also shows a coverage ratio of performing loans as at December 31, 2017 equal to 0.47%.</p> <p>For the classification of credit exposures in the various homogeneous risk classes, the Bank refers to sector regulations, supplemented by the internal rules governing the classification and transfer rules within the various risk categories.</p>	<p>The audit procedures performed included, among others, the following:</p> <ul style="list-style-type: none"> <li>analysis and understanding of the Bank's internal control system and the relative internal regulations concerning to the credit process which included, in particular, the identification of the organizational and procedural safeguards implemented by the Bank to monitor credit quality as well as the adequacy of the classification according to the provisions of the sector legislation and for the relative assessment in compliance with the applicable accounting standard;</li> <li>analysis of the implementation of the procedures and Bank processes, test of the operational effectiveness of the relevant controls for the purposes of the classification and assessment process;</li> </ul>

<p>The notes to the accounts <i>Part A – Accounting Policies</i> describes the methods used for the collective assessment for groups of performing loans for which individually there are no indicators of impairment, as a product among the risk factors derived from the parameters used for the purposes of the requirements of the prudential regulation (EU Regulation 575/2013 on the prudential requirements for credit institutions and investment firms, so-called "CRR"), which have one-year time horizon, and the average delay between the deterioration of a debtor's financial condition and its classification among non performing exposures.</p> <p>Considering the significance of the amount of the performing loans recorded in the financial statements, the complexity of the estimation processes adopted by the Bank which implied an articulated classification activity into homogeneous risk categories and the use of valuation models characterized by numerous variables, including the existence of indicators of possible impairment, we have identified the classification and valuation of performing loans, with particular reference to performing credit portfolios with higher levels of management risk ("watchlist" exposures), as a Key Audit Matter of the financial statements of UniCredit S.p.A. as at December 31, 2017.</p>	<ul style="list-style-type: none"> <li>• analysis and understanding of the IT systems and applications used and test of the operational effectiveness of relevant controls, also with the support of IT experts belonging to the Deloitte network;</li> <li>• comparative analysis procedures with reference to the most significant changes compared to the data of the previous year, also through the obtainment and analysis of the monitoring reports; analysis of the related results with the heads of the Bank departments and related organizational units involved;</li> <li>• analysis and recalculation of the collective assessment of performing loans;</li> <li>• analysis and understanding of the main valuation models adopted and verification, on a sample basis, of the reasonableness of the parameters subject to estimation, also used with the support of credit model experts and IT experts belonging to the Deloitte network;</li> <li>• checks on a sample basis on the classification according to the provisions of the sector legislation as well as on the related valuation in compliance with the applicable accounting standards;</li> <li>• analysis of events occurred after the reference date of the financial statements.</li> </ul> <p>Finally, we verified the adequacy and compliance of the information provided in the notes to the accounts with respect to the requirements of the applicable accounting standards and the relevant legislation.</p>
<p><b>Key Audit Matters – Classification and valuation of non performing loans (unlikely to pay and bad loans)</b></p>	<p><b>Audit procedures in response to the Key Audit Matters</b></p>
<p>As represented in the notes to the accounts <i>Part B – Balance Sheet Assets</i> and in the report on operations, non performing loans to customers of UniCredit S.p.A. as at December 31, 2017 amount to a gross book value of 32,689 million Euro, allowances for impairment to 18,791 million Euro and the net book value to 13,898 million Euro.</p>	<p>The audit procedures performed included, among others, the following:</p> <ul style="list-style-type: none"> <li>• analysis and understanding of the internal control system as well as the related internal regulations regarding the monitoring of credit quality, the management of impaired loans as well as the adequacy of the classification according to the provisions of the sector legislation and its assessment in compliance with the applicable accounting principles;</li> </ul>

<p>The report on operations also shows that the coverage ratio of non performing loans as at December 31, 2017 is equal to 68.22% for bad exposures, with a net exposure of 5,638 million Euro, 44.95% for unlikely to pay, with a net exposure of 7,924 million Euro and 39.16% for past due exposures, with a net exposure of 336 million Euro.</p> <p>In the notes to the accounts <i>Part A - Accounting Policies</i> the classification rules for non performing exposures are described, i.e. those that have the characteristics set out in paragraphs 58-62 of IAS39.</p> <p>In the notes to the accounts <i>Part A - Accounting policies</i>, it is also described that the assessment of bad exposures and unlikely to pay takes place:</p> <ul style="list-style-type: none"> <li>• on an analytical basis, as the difference between the carrying amount and the current value of the estimated cash flows, discounted at the original interest rate of the financial asset;</li> <li>• through the comparison with coverage levels defined statistically for some credit portfolios below a predefined threshold.</li> </ul> <p>Considering the significance of non performing loans amount recorded in the financial statements and the complexity of the estimation processes adopted by the Bank which implied a complex classification activity into homogeneous risk categories and the use of some variables characterized by a high subjectivity (such as the estimates of expected cash flows, the relative recovery times, the value of any guarantees) for the determination of the relative recoverable amount, we have identified the classification of non performing loans and their valuation as a Key Audit Matter of the financial statements of UniCredit S.p.A. as at December 31, 2017.</p>	<ul style="list-style-type: none"> <li>• analysis of the implementation of the procedures and Bank processes, test of the operational effectiveness of the relevant controls for the purposes of the classification and assessment process;</li> <li>• analysis and understanding of the IT systems and applications used and test of the operational effectiveness of relevant controls, also with the support of IT experts belonging to the Deloitte network;</li> <li>• comparative analysis procedures, for each category of non-performing loans, by calculating appropriate hedging indices and comparing them with the data for the previous year, also by obtaining and analyzing the monitoring reports, and analysis of the relative results with the heads of the Bank departments and the related organizational units involved, in addition to sector data;</li> <li>• analysis and understanding of the main evaluation models adopted and verification, on a sample basis, of the reasonableness of the parameters to be assessed, also with the support of credit model experts and IT experts belonging to the Deloitte network;</li> <li>• checks on a sample basis, for each category of non-performing loans, on the classification according to the provisions of the sector legislation as well as on the related valuation in compliance with the applicable accounting standards;</li> <li>• analysis of events occurred after the reference date of the financial statements.</li> </ul> <p>Finally, we verified the adequacy and compliance of the information provided in the notes to the accounts with respect to the requirements of the applicable accounting standards and the relevant legislation.</p>
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<p><b>Key Audit Matters - Legal risks related to non-compliance with the economic sanctions imposed by the United States of America ("U.S.") to other countries</b></p>	<p><b>Audit procedures in response to the Key Audit Matters</b></p>
<p>As described in the <i>Part E – Information on risks and hedging policies</i> of the notes to the accounts, in March 2011 the subsidiary UniCredit Bank AG ("UCB AG") received a subpoena from the District Attorney for New York County ("NYDA") relating to historical transactions involving certain Iranian entities designated by U.S. Treasury Department's Office of Foreign Assets Control ("OFAC"). In June 2012, the U.S. Department of Justice opened an investigation of OFAC-related compliance by UCB AG and, more generally, by its subsidiaries.</p> <p>In this context, UCB AG is conducting, with the support of external lawyers, a voluntary investigation of its U.S. dollar payments practices and its historical compliance with applicable U.S. financial sanctions against Iran, in the course of which certain historical non-transparent practices have been identified.</p> <p>In addition, also UniCredit S.p.A. and UniCredit Bank Austria AG have independently started, with the support of external lawyers, a voluntary investigation of its historical compliance with applicable U.S. financial sanctions and have similarly identified certain historical non-transparent practices.</p> <p>The Directors' considerations on this matter are reported in the <i>Part E - Information on risks and hedging policies</i> of the notes to the accounts in the paragraph "Financial sanctions matters". In relation to the complexity of the matter, the uncertainties related to the outcomes of the investigations and the relevance of the economic and financial effects that may occur in connection therewith, we have identified the assessment of legal risks related to non-compliance with US economic sanctions a Key Audit Matter of the financial statements of UniCredit S.p.A. as at December 31, 2017.</p>	<p>The main audit procedures, performed also with the support of legal experts belonging to the Deloitte network, were:</p> <ul style="list-style-type: none"> <li>• analysis and understanding of the internal control system related to the monitoring and management of litigations and any other legal issue;</li> <li>• analysis and understanding of the process adopted by the legal and the compliance functions of the Bank to monitor, manage and report to the governance bodies with specific reference to the U.S. economic sanctions;</li> <li>• periodic meetings with the heads of the legal and the compliance functions of the Bank and with the external lawyers appointed by the Bank;</li> <li>• obtaining and examining written confirmations and opinions prepared by the lawyers appointed by the Bank to support the assessments made by the Directors of UniCredit S.p.A. for the purpose of preparing the financial statements for the year ended December 31, 2017;</li> <li>• analysis of any significant events occurred after the reference date of the financial statements.</li> </ul> <p>Finally, we verified the adequacy and compliance of the disclosure provided in the notes to the accounts with respect to the requirements of the applicable accounting standards.</p>

## **Responsibilities of the Directors and the Board of Statutory Auditors for the Financial Statements**

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05 and to art. 43 of Italian Legislative Decree no. 136/15 and, within the terms established by law, for such internal control as the Directors determine 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 Directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the Bank or for the termination of the operations or have no realistic alternative to such choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the Bank's financial reporting process.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives 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 an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) 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 International Standards on Auditing (ISA Italia), 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 Directors.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the 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, identified at an appropriate level as required by ISA Italia, 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 applicable in Italy, 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 auditor's report.

#### **Other information communicated pursuant to art. 10 of the EU Regulation 537/2014**

The Shareholders' Meeting of UniCredit S.p.A. has appointed us on May 11, 2012 as auditors of the Bank for the years from December 31, 2013 to December 31, 2021.

We declare that we have not provided prohibited non-audit services referred to in art. 5 (1) of EU Regulation 537/2014 and that we have remained independent of the Bank in conducting the audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to the Board of Statutory Auditors, in its role of Audit Committee, referred to in art. 11 of the said Regulation.

#### **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

##### **Opinion pursuant to art. 14, paragraph 2 (e), of Legislative Decree 39/10 and art. 123-bis, paragraph 4, of Legislative Decree 58/98**

The Directors of UniCredit S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and ownership structure of UniCredit S.p.A. as at December 31, 2017, including their consistency with the related financial statements and their compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and some specific information contained in the report on corporate governance and ownership structure set forth in art. 123-bis, n. 4 of Legislative Decree 58/98 with the financial statements of UniCredit S.p.A. as at December 31, 2017 and on their compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned report on operations and some specific information contained in the report on corporate governance and ownership structure are consistent with the financial statements of UniCredit S.p.A. as at December 31, 2017 and are prepared in accordance with the law.

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the Bank and of the related context acquired during the audit, we have nothing to report.

DELOITTE & TOUCHE S.p.A.

*Signed by*  
**Riccardo Motta**  
Partner

Milan, Italy  
March 12, 2018

*This report has been translated into the English language solely for the convenience of international readers.*





# Shareholders' Meeting resolutions

Ordinary Shareholders' Meeting resolution of 12 April 2018

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## Shareholders' Meeting resolutions



# Ordinary Shareholders' Meeting resolution of 12 April 2018

The Shareholders' Meeting of UniCredit S.p.A., held on 12 April 2018, also based on the Reports of the Board of Directors, External Auditors and the Board of Statutory Auditors, approved, in its ordinary session, the financial statements as at 31 December 2017, which recorded, on an individual basis, a profit of €6,235,645,406.48, also resolving to:

- distribute to the shareholders holding ordinary shares a unit dividend of €0.32 for each outstanding share, for a maximum amount of €725,725,600, taken from the 2017 profit ("ex-dividend" date 23 April 2018 - payment date 25 April 2018);
- allocate €4,000,000 to the donations Fund to be used in social, charity and cultural initiatives in favour of UniCredit Foundation, UniCredit and Università Foscolo Foundation, pursuant to Art.32, par.4 of the Company's By-Laws;
- allocate €40,000,000 to the reserve linked to the medium-term Incentive Scheme for the Group employees;
- allocate the remaining amount to the Statutory Reserve.

In addition, the Ordinary Shareholders' Meeting passed the following resolutions:

- determine that the members of the Board of Directors' should be 15 and appoint as Directors with a 3-financial year mandate the following Messrs. from List 1:

1. Fabrizio SACCOMANNI
2. Jean Pierre MUSTIER
3. Mohamed Hamad AL MEHAIRI
4. Lamberto ANDREOTTI
5. Sergio BALBINOT
6. Cesare BISONI
7. Martha Dagmar BOECKENFELD
8. Isabelle DE WISMES
9. Stefano MICOSSI
10. Maria PIERDICCHI
11. Andrea SIRONI
12. Alexander WOLFGRING
13. Elena ZAMBON

and the following Messrs. from List 2:

1. Francesca TONDI
2. Vincenzo CARIELLO

- award to the Directors a remuneration of €1,760,000 for each year for the activities carried out within the Board of Directors and the Board's Committees, determining an attendance fee of €1,000 for each meeting of the Board of Directors and the Internal Controls & Risks Committee, an attendance fee of €800 for each meeting of the other Committees and €400 for the participation to meetings by using remote means of communication;
- approve the 2018 Group Incentive Scheme;
- approve the 2018 Group Compensation Policy;
- approve the amendments made to the Regulations governing the Shareholders' Meeting.

12 April 2018

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**UniCredit S.p.A.**

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May 2018

The emissions related to the printing and distribution of the UniCredit S.p.A. 2017 Reports and Accounts, 2017 Consolidated Reports and Accounts and the 2017 Integrated Report have been compensated with the support of Officinæ Verdi, which uses Gold Standard credits gained through the development of a landfill gas capture project in China. The Gold Standard is supported by WWF as it is the most rigorous global certification standard for carbon offset projects.



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