BRD – Groupe Société Générale S.A.

CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Prepared in Accordance with
International Financial Reporting Standards as adopted by the European Union

DECEMBER 31, 2018

BRD – Groupe Société Générale S.A.
CONSOLIDATED AND SEPARATE STATEMENT OF FINANCIAL POSITION
for the period ended December 31, 2018
(Amounts in thousands RON)

	Note	Group		Bank	
		December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
ASSETS					
Cash in hand	6,7	2,236,045	1,924,214	2,236,018	1,924,188
Due from Central Bank	8	3,785,491	5,757,953	3,785,491	5,757,953
Due from banks	9	3,316,344	2,549,512	3,297,915	2,530,468
Derivatives and other financial instruments held for trading	10	2,252,463	637,686	2,252,519	637,689
Loans and advances to customers	11	29,603,276	29,608,422	28,893,343	29,011,925
Finance lease receivables	12	761,012	727,768	-	-
Financial assets available for sale	4	-	12,135,373	-	12,113,692
Financial assets at fair value through profit and loss	4,13	82,476	-	62,598	-
Financial assets at fair value through other comprehensive income	4,14	12,059,561	-	12,059,561	-
Investments in associates and subsidiares	15	84,919	151,860	129,577	158,594
Property, plant and equipment	16	801,782	832,918	794,585	825,645
Investment property	16	19,071	12,544	19,071	12,544
Goodwill	17	50,130	50,130	50,130	50,130
Intangible assets	18	142,818	106,408	140,592	103,263
Current tax assets	23	10,312	-	10,312	-
Deferred tax asset	23	113,480	112,536	107,392	109,484
Other assets	19	327,898	320,067	221,233	255,348
Non-current assets held for sale	15	72,290	-	29,017	-
Total assets		**55,719,369**	**54,927,391**	**54,089,354**	**53,490,923**
LIABILITIES AND SHAREHOLDERS' EQUITY					
Due to banks	20	297,817	885,970	297,817	885,970
Due to customers	21	45,216,995	44,219,686	45,315,556	44,387,308
Borrowed funds	22	1,306,638	1,252,455	16,582	48,530
Derivatives and other financial instruments held for trading	10	341,061	138,044	341,061	138,044
Current tax liability	23	2,305	103,581	-	102,388
Deferred tax liability	23	-	955	-	-
Other liabilities	24	897,126	957,949	790,929	900,296
Total liabilities		**48,061,942**	**47,558,640**	**46,761,945**	**46,462,536**
Share capital	25	2,515,622	2,515,622	2,515,622	2,515,622
Other reserves		3,052	66,302	(3,122)	61,606
Retained earnings and capital reserves		5,092,159	4,733,415	4,814,909	4,451,159
Non-controlling interest		46,594	53,412	-	-
Total equity		**7,657,427**	**7,368,751**	**7,327,409**	**7,028,387**
Total liabilities and equity		**55,719,369**	**54,927,391**	**54,089,354**	**53,490,923**

The financial statements have been authorized by the Group's management on March 13, 2018, and are signed on the Group's behalf by:

Giovanni Luca Soma
Chairman of the Board of Directors

François Bloch
Chief Executive Officer

Stephane Fortin
Chief Financial Officer

The accompanying notes are an integral part of this financial statements

(Amounts in thousands RON)

		Group		Bank	
	Note	**2018**	**2017**	**2018**	**2017**
Interest and similar income	26	2,158,494	1,860,134	2,020,458	1,734,967
Interest and similar expense	27	(169,675)	(140,762)	(151,126)	(130,611)
Net interest income		**1,988,819**	**1,719,372**	**1,869,332**	**1,604,356**
Fees and commissions, net	28	**797,147**	**763,043**	**759,301**	**726,290**
Gain on derivative, other financial instruments held for trading and foreign exchange	29	289,929	257,087	288,837	256,064
Gain on financial assets available for sale		-	9,328	-	9,328
Gain from financial instruments at fair value through other comprehensive income		3,882	-	3,882	-
Gain from financial instruments at fair value through profit and loss		10,682	-	10,145	-
Income from associates		21,462	32,150	17,590	19,059
Other income	30	3,361	4,895	31,829	26,402
Operating income		**3,115,282**	**2,785,874**	**2,980,916**	**2,641,499**
Personnel expenses	32	(767,828)	(739,153)	(715,700)	(690,936)
Depreciation, amortisation and impairment on tangible and intangible assets	33	(134,026)	(137,020)	(131,384)	(134,053)
Contribution to Guarantee Scheme and Resolution Fund	31	(35,026)	(70,750)	(35,026)	(70,750)
Other operating expenses	34	(552,785)	(526,295)	(517,530)	(491,829)
Total operating expenses		**(1,489,665)**	**(1,473,218)**	**(1,399,639)**	**(1,387,568)**
Net operating profit		**1,625,617**	**1,312,656**	**1,581,277**	**1,253,931**
Cost of risk	35	230,388	359,517	246,276	375,687
Profit before income tax		**1,856,005**	**1,672,173**	**1,827,553**	**1,629,618**
Current tax expense	23	(299,734)	(264,746)	(288,546)	(257,314)
Deferred tax income	23	6,831	7,147	6,982	8,080
Total income tax		**(292,903)**	**(257,599)**	**(281,564)**	**(249,234)**
Profit for the period		**1,563,102**	**1,414,574**	**1,545,989**	**1,380,384**
Profit attributable to equity holders of the parent		1,555,702	1,406,360	-	-
Profit attributable to non-controlling interests		7,400	8,215	-	-
Basic earnings per share (in RON)	40	**2.2323**	**2.0180**	**2.2184**	**1.9807**

BRD – Groupe Société Générale S.A.
CONSOLIDATED AND SEPARATE STATEMENT OF COMPREHENSIVE INCOME
for the period ended December 31, 2018
(Amounts in thousands RON)

	Note	Group		Bank	
		December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Profit for the period		**1,563,102**	**1,414,575**	**1,545,989**	**1,380,384**
Net comprehensive income that may be reclassified to profit and loss in subsequent periods		**(73,443)**	**(205,974)**	**(74,921)**	**(210,670)**
Net gain/(loss) on financial assets available for sale / on financial assets at fair value through other comprehensive income		(74,921)	(210,670)	(74,921)	(210,670)
Reclassifications to profit and loss during the period		6,641	(9,328)	6,641	(9,328)
Revaluation differences		(95,307)	(241,470)	(95,307)	(241,470)
Income tax		13,745	40,128	13,745	40,128
Exchange differences from translation of foreign operations		1,478	4,696	-	-
Net comprehensive income not to be reclassified to profit and loss in subsequent periods		**27,819**	**229**	**27,819**	**229**
Gain/(Loss) on defined pension plan	24	33,117	273	33,117	273
Income tax relating to defined pension plan	23	(5,299)	(44)	(5,299)	(44)
Other comprehensive income for the period, net of tax		**(45,624)**	**(205,745)**	**(47,102)**	**(210,441)**
Total comprehensive income for the period, net of tax		**1,517,478**	**1,208,830**	**1,498,887**	**1,169,943**
Attributable to:					
Equity holders of the parent		1,510,078	1,200,615		-
Non-controlling interest		7,400	8,215		-

BRD – Groupe Société Générale S.A.
CONSOLIDATED AND SEPARATE STATEMENT OF CHANGES IN EQUITY
for the period ended December 31, 2018
(Amounts in thousands RON)

Group

	Attributable to equity holders of the parent					Non-controlling interest	Total equity
		Other reserves					
	Issued capital	Reserve from financial assets at fair value through OCI	Reserves from defined pension plan	Foreign currency translation reserve	Retained earnings and capital reserves		
December 31, 2016	**2,515,622**	**276,697**	**(4,650)**	**-**	**3,835,793**	**50,371**	**6,673,833**
Total comprehensive income	**-**	**(210,670)**	**229**	**4,696**	**1,406,360**	**8,215**	**1,208,830**
Net Profit for the period	-	-	-	-	1,406,360	8,215	**1,414,575**
Other comprehensive income	-	(210,670)	229	4,696	-	-	**(205,745)**
Equity dividends	-	**-**	-	-	(508,738)	(5,174)	**(513,912)**
December 31, 2017	**2,515,622**	**66,027**	**(4,421)**	**4,696**	**4,733,415**	**53,412**	**7,368,751**
IFRS 9 Impact (see note 4)	**-**	**(17,626)**	**-**	**-**	**(54,042)**	**(7,031)**	**(78,698)**
Restated opening balance	**2,515,622**	**48,401**	**(4,421)**	**4,696**	**4,679,373**	**46,381**	**7,290,052**
Total comprehensive income	-	(74,921)	27,819	1,478	1,555,702	7,400	**1,517,478**
Net Profit for the period	-	-	-		1,555,702	7,400	**1,563,102**
Other comprehensive income	-	(74,921)	27,819	1,478	-	-	**(45,624)**
Equity dividends	-				(1,142,918)	(7,187)	**(1,150,105)**
December 31, 2018	**2,515,622**	**(26,520)**	**23,398**	**6,174**	**5,092,157**	**46,594**	**7,657,425**

BRD – Groupe Société Générale S.A.
CONSOLIDATED AND SEPARATE STATEMENT OF CHANGES IN EQUITY
for the period ended December 31, 2018
(Amounts in thousands RON)

Bank

	Issued capital	Other reserves: Reserve from financial assets at fair value through OCI	Other reserves: Reserves from defined pension plan	Retained earnings and capital reserves	Total equity
December 31, 2016	**2,515,622**	**276,697**	**(4,650)**	**3,579,514**	**6,367,183**
Total comprehensive income	**-**	**(210,670)**	**229**	**1,380,384**	1,169,943
Net Profit for the period	-	-	-	1,380,384	1,380,384
Other comprehensive income	-	(210,670)	229	-	(210,441)
Equity dividends	-	-	-	(508,739)	(508,739)
December 31, 2017	**2,515,622**	**66,027**	**(4,421)**	**4,451,159**	**7,028,387**
IFRS 9 Impact (see note 4)	**-**	**(17,627)**	**-**	**(39,321)**	**(56,948)**
Restated opening balance	**2,515,622**	**48,400**	**(4,421)**	**4,411,838**	**6,971,439**
Total comprehensive income	-	(74,921)	27,819	1,545,989	1,498,886
Net Profit for the period	-	-	-	1,545,989	1,545,989
Other comprehensive income	-	(74,921)	27,819	-	(47,102)
Equity dividends	-	-	-	(1,142,918)	(1,142,918)
December 31, 2018	**2,515,622**	**(26,521)**	**23,398**	**4,814,908**	**7,327,407**

(Amounts in thousands RON)

	Note	Group 2018	Group 2017	Bank 2018	Bank 2017
Cash flows from operating activities					
Profit before tax		**1,856,005**	**1,672,174**	**1,827,553**	**1,629,618**
Adjustments for non-cash items					
Depreciation and amortization expense and net loss/(gain) from disposals of tangible and intangible assets	33	134,026	137,020	131,384	134,052
Loss from investment revaluation		(5,349)	(18,192)	-	-
Impairment adjustments and provisions	11,24	1,636	27,319	(14,428)	10,360
Profit adjusted for non cash items		**1,986,318**	**1,818,321**	**1,944,510**	**1,774,030**
Changes /re-classifications in operating assets and liabilities					
Current account with NBR		(27,663)	81,611	(27,663)	81,611
Accounts and deposits with banks		45,660	18,549	45,049	11,451
Financial assets available for sale		-	(731,492)	-	(739,362)
Financial assets at fair value through profit and loss		16,326	-	14,522	-
Financial assets at fair value through other comprehensive income		(96,432)	-	(97,910)	-
Loans and advances to customers		(1,384,386)	(1,737,052)	(1,237,104)	(1,577,192)
Lease receivables		(41,554)	(64,251)	-	-
Other assets including trading		(470,317)	446,035	(428,427)	448,197
Due to banks		(588,153)	354,369	(588,153)	354,369
Due to customers		997,309	2,026,937	928,248	2,096,570
Other liabilities		353,889	(338,560)	310,308	(347,983)
Total changes in operating assets and liabilities		**(1,195,321)**	**56,146**	**(1,081,128)**	**327,660**
Income tax paid		(380,549)	(167,164)	(375,639)	(158,966)
Cash flow from operating activities		**410,448**	**1,707,303**	**487,743**	**1,942,723**
Investing activities					
Sales of equity investments		-	403	-	403
Acquisition of tangible and intangible assets	16,18	(149,298)	(151,220)	(147,651)	(150,201)
Proceeds from sale of tangible and intangible assets		3,471	105	3,471	105
Cash flow from investing activities		**(145,827)**	**(150,712)**	**(144,180)**	**(149,693)**
Financing activities					
Proceeds from borrowings		670,445	764,315	336	1,534
Repayment of borrowings		(616,266)	(613,419)	(32,284)	(91,455)
Dividends paid		(1,150,105)	(513,912)	(1,142,918)	(508,739)
Net cash from financing activities		**(1,095,926)**	**(363,016)**	**(1,174,867)**	**(598,660)**
Net movements in cash and cash equivalents		**(831,305)**	**1,193,575**	**(831,305)**	**1,194,372**
Cash and cash equivalents at beginning of the period	7	**6,204,834**	**5,011,258**	**6,204,801**	**5,010,426**
Cash and cash equivalents at the end of the period	7	**5,373,529**	**6,204,833**	**5,373,496**	**6,204,801**

The amount of undrawn borrowing facilities that may be available for future operating activities is 699,585 (December 31, 2017: 698,955) and represents a stand by line concluded with the parent for contingency funding purposes as requested by the Romanian banking regulations on liquidity management.

Reverse repo transactions, previously classified in IAS 39 in “loans and advances” and “due from banks” and measured at amortised cost were included in line “derivative and other financial assets held for trading” starting 2018. Please refer to note 4.

(Amounts in thousands RON)

1. Corporate information

BRD – Groupe Société Générale (the "Bank" or "BRD") is a joint stock company incorporated in Romania. The Bank commenced business as a state owned credit institution in 1990 by acquiring assets and liabilities of the former Banca de Investitii. The Bank headquarters and registered office is 1-7 Ion Mihalache Blvd, Bucharest.

BRD together with its subsidiaries (the "Group') offers a wide range of banking and financial services to corporates and individuals, as allowed by law. The Group accepts deposits from the public and grants loans and leases, carries out funds transfer in Romania and abroad, exchanges currencies and provides other financial services for its commercial and retail customers.

The ultimate parent is Société Générale S.A. as at December 31, 2018 (the "Parent"or "SG").

The Bank has as at December 31, 2018 723 units throughout the country (December 31, 2017: 760).

The average number of active employees of the Group during 2018 was 7,489 (2017: 7,564), and the number of active employees of the Group as of the period-end was 7,471 (December 31, 2017: 7,568).

The average number of active employees of the Bank during 2018 was 6,902 (2017: 6,982), and the number of active employees of the Bank as of the period-end was 6,882 (December 31, 2017: 6,970).

The active employees are the full time employees (excluding maternity leave and long-term sick leave).

BRD – Groupe Société Générale has been quoted on Bucharest Stock Exchange ("BVB") since January 15, 2001.

The shareholding structure of the Bank is as follows:

	December 31, 2018	December 31, 2017
Societe Generale France	60.17%	60.17%
SIF Transilvania	3.35%	3.25%
Fondul de pensii administrat privat NN/NN pensii	2.98%	2.84%
SIF Oltenia	2.89%	0.00%
Fondul Proprietatea	2.40%	3.18%
Legal entities	24.05%	27.00%
Individuals	4.15%	3.56%
Total	**100.00%**	**100.00%**

2. Basis of preparation

a) Basis of preparation

In accordance with European Regulation 1606/2002 of July 19, 2002 on the application of International Accounting Standards, and Order of the National Bank of Romania Governor no. 27/2010 with subsequent amendments, BRD prepared consolidated and separate financial statements for the year ended December 31, 2018 in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union ("EU").

The consolidated financial statements include the consolidated statement of financial position, the consolidated profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in shareholders' equity, the consolidated cash flow statement, and consolidated notes.

The separate financial statements include the separate statement of financial position, the separate profit or loss, the separate statement of comprehensive income, the separate statement of changes in shareholders' equity, the separate cash flow statement, and separate notes.

The consolidated and separate financial statements is presented in Romanian lei ("RON"), which is the Group's and its subsidiaries' functional and presentation currency, rounded to the nearest thousand, except when otherwise indicated. The consolidated and separate financial statements has been prepared on a historical cost basis, except for financial assets at fair value through profit and loss, financial assets through other comprehensive income, derivative financial instruments, other financial assets and liabilities held for trading, which have all been measured at fair value.

The Group and Bank's management has made an assessment of the Group and Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the consolidated and separate financial statements are prepared on the going concern basis.

b) Basis for consolidation

The consolidated financial statements comprise the financial statements of the credit institution and its subsidiaries as at December 31, 2018. The financial statements of the subsidiaries are prepared for the same reporting period, using consistent accounting policies.

A subsidiary is an entity over which the Bank exercises control. An investor controls an investee when it is exposed, or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The consolidated financial statements include the financial statements of BRD – Groupe Société Générale S.A. and the following subsidiaries: BRD Sogelease IFN S.A. (99.98% ownership, 2017: 99.98%), BRD Finance IFN S.A (49% ownership, 2017: 49%) and BRD Asset Management SAI SA (99.98% ownership, 2017: 99.98%). The BRD subsidiary, BRD Corporate Finance (100% ownership) was dissolved during December 2017, following a period of 3 years of activity interruption.

According to IFRS 12 9(b), the Group controls BRD Finance IFN S.A even though it holds less than half of the voting rights, through the power to govern the financial and operating policies of the entity under various agreements. All intercompany transactions, balances and unrealized gains and losses on transactions between consolidated entities are eliminated on consolidation.

(Amounts in thousands RON)

2. Basis of preparation (continued)

b) Basis for consolidation (continued)

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Bank obtains control, and continue to be consolidated until the date such control ceases.

Equity and net income attributable to non-controlling interest are shown separately in the statement of financial position, statement of comprehensive income, statement of changes in equity and statement of comprehensive income, respectively.

The Bank is accounting the investments in subsidiaries and associates in the separate financial statements at cost less impairment adjustment.

Group

Associates	Field of activity	Address	%
ALD Automotive SRL	Operational leasing	1-7, Ion Mihalache Street, Bucharest	20.00%
Mobiasbanca Groupe Societe Generale S.A.	Financial institution	81 Stefan cel Mare si Sfint Street, Kishinev, Republic of Moldova	20.00%
BRD Asigurari de Viata SA	Insurance	15 Splaiul Independentei Street, bloc 100, district 5, Bucharest	49.00%
Fondul de Garantare a Creditului Rural IFN SA	Loans guarantee	5 Occidentului Street, district 1, Bucharest	33.33%
Biroul de Credit S.A.	Financial institution	29 Sfanta Vineri Street, floor 4, district 3, Bucharest	16.38%
BRD Societate de Administrare a Fondurilor de Pensii Private SA	Pension fund management	15 Splaiul Independentei Street, bloc 100, district 5, Bucharest	49.00%
BRD Sogelease Asset Rental SRL	Operational leasing	1-7, Ion Mihalache Street, Bucharest	20.00%

Bank

	Field of activity	Address	%
Associates			
ALD Automotive SRL	Operational leasing	1-7, Ion Mihalache Street, Bucharest	20.00%
Mobiasbanca Groupe Societe Generale S.A.	Financial institution	81 Stefan cel Mare si Sfint Street, Kishinev, Republic of Moldova	20.00%
BRD Asigurari de Viata SA	Insurance	15 Splaiul Independentei Street, bloc 100, district 5, Bucharest	49.00%
Fondul de Garantare a Creditului Rural IFN SA	Loans guarantee	5 Occidentului Street, district 1, Bucharest	33.33%
Biroul de Credit S.A.	Financial institution	29 Sfanta Vineri Street, floor 4, district 3, Bucharest	16.38%
BRD Societate de Administrare a Fondurilor de Pensii Private SA	Pension fund management	15 Splaiul Independentei Street, bloc 100, district 5, Bucharest	49.00%
Subsidiaries			
BRD Sogelease IFN SA	Financial lease	1-7, Ion Mihalache Street, Bucharest	99.98%
BRD Finance IFN SA	Financial institution	1-7, Ion Mihalache Street, Bucharest	49.00%
BRD Asset Management SAI SA	Fund administration	2 Doctor Staicovici Street, district 5, Bucharest	99.98%

2. Basis of preparation (continued)

c) Changes in accounting policies and adoption of revised/amended IFRS

The accounting policies adopted are consistent with those of the previous financial year except for the following standards, amendments to the existing standards and interpretations issued by the International Accounting Standard Board ("IASB") and adopted by the EU that are effective for the current period and have also been adopted in these financial statements. The impact of the application of these new and revised IFRSs has been reflected in the financial statements and was estimated as not being material, except disclosures already presented in the Notes.

- **IFRS 9 Financial Instruments and IFRS 7R Financial Instruments: Disclosures**

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement and introduces new requirements for classification and measurement, impairment, and hedge accounting.

The Group has adopted IFRS 9 ("IFRS 9") with a date of transition of 1 January 2018. As a policy choice, the Group has also elected to continue to apply the hedge accounting requirements in accordance with IAS 39.

As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Therefore the comparative information for 2017 is reported under IAS 39 and is not comparable to information reported for 2018. Differences in the carrying amounts of financial assets and financial liabilities at the date of transition were recognized in retained earnings and other reserves and are presented in Note 4.

Changes to classification and measurement:

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. This single, principle-based approach replaces existing rule-based requirements under IAS 39.

The IAS 39 measurement categories of financial assets (fair value through profit or loss - FVPL), available for sale - AFS, held-to-maturity and loans and receivables) have been replaced by:

- Debt instruments at amortized cost
- Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on derecognition
- Equity instruments at FVOCI, with no recycling of gains or losses on profit or loss on derecognition
- Financial assets FVPL

The accounting for financial liabilities remains largely the same as it was under IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVPL. The Group has no financial liabilities designated at FVPL.

The Group's classification of its financial assets and liabilities is explained in Note 2. The quantitative impact of applying IFRS 9 as at 1 January 2018 is disclosed in Note 4.

2. Basis of preparation (continued)

c) Changes in accounting policies and adoption of revised/amended IFRS (continued)

Changes to the impairment calculation

The adoption of IFRS 9 has fundamentally changed the Bank's assessment of loan loss impairments by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

IFRS 9 requires the Bank to record an allowance adjustment for ECLs for all financial assets not held at FVPL or for equity instruments at FVOCI, together with loan commitments and financial guarantee contracts. Specifically, the new standard requires entities to account for ECLs from the initial recognition of financial assets and to recognise full lifetime expected losses on a more timely basis. Hence, the allowance adjustment is based on expected losses in the next twelve months unless there has been a significant increase in credit risk since origination or an indication of default, in which case the ECL's is recorded as the expected losses for the entire financial asset life time.

If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset. Details of the Bank's impairment method are disclosed in Note 2. The quantitative impact of applying IFRS 9 as at 1 January 2018 is disclosed in Note 4.

IFRS 7 R

To reflect the differences between IFRS 9 and IAS 39, IFRS 7 Financial Instruments: Disclosures was updated and the Bank has adopted it, together with IFRS 9, for the year beginning 1 January 2018.

Changes include transition disclosures as shown in Note 4, detailed qualitative and quantitative information about the ECL calculations such as the assumptions and inputs used are set out in Note 41 (Risk Management). Reconciliations from opening to closing ECL allowances are presented in Notes 11.

Comparative notes disclosures repeat disclosures made in the prior year Financial Statements.

2. Basis of preparation (continued)

c) Changes in accounting policies and adoption of revised/amended IFRS (continued)

- **IFRS 15 Revenue from Contracts with Customers**
  IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures are required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates.

- **IFRS 15: Revenue from Contracts with Customers (Clarifications)**
  The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 Revenue from Contracts with Customers, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach.

- **IFRS 2: Classification and Measurement of Share based Payment Transactions (Amendments)**
  The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

- **IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments)**
  The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the new insurance contracts standard that the Board is developing to replace IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach, which would permit entities that issue contracts within the scope of IFRS 4 to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets.

- **IAS 40: Transfers to Investment Property (Amendments)**
  The Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use.

2. Basis of preparation (continued)

c) Changes in accounting policies and adoption of revised/amended IFRS (continued)

- The **IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle**, which is a collection of amendments to IFRSs.

  - **IFRS 1 First-time Adoption of International Financial Reporting Standards*:*** This improvement deletes the short-term exemptions regarding disclosures about financial instruments, employee benefits and investment entities, applicable for first time adopters.

  - **IAS 28 Investments in Associates and Joint Ventures:** The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

- **IFRIC INTERPETATION 22: Foreign Currency Transactions and Advance Consideration**

  The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration

d) Standards and Interpretations that are issued but have not yet come into effect

Standards issued but not yet effective up to the date of issuance of the Group and Bank’s consolidated and separate financial statements are listed below. This listing is of standards and interpretations issued, which the Group and Bank reasonably expects to be applicable at a future date. The Group and Bank intends to adopt those standards when they become effective. The Group and Bank is in progress of assessing the impact of the adoption of these standards, amendments to the existing standards and interpretations on the consolidated and separate financial statements of the Group and Bank in the period of initial application.

2. Basis of preparation (continued)

d) Standards and Interpretations that are issued but have not yet come into effect (continued)

- **IFRS 16: Leases**
  The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged.

  The Bank is a lessee for land and buildings, IT hardware and vehicles and estimates to record a right of use (ROU) / lease liability at the first time application of approximately 467 million for the Bank and 482 million at Group level. The bank will elect to apply the exception of ROU calculation for contracts under one year at the date of first time application and for leases of intangible assets.

- **IFRIC INTERPETATION 23: Uncertainty over Income Tax Treatments**
  The Interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances.

- **IFRS 9: Prepayment features with negative compensation (Amendments)**
  The Amendment is effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income.

- **Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures**: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.
  The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU**.**

- **IAS 28: Long-term Interests in Associates and Joint Ventures (Amendments)**
  The Amendments are effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendments relate to whether the measurement, in particular impairment requirements, of long term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-

2. Basis of preparation (continued)

d) Standards and Interpretations that are issued but have not yet come into effect (continued)

term interests that arise from applying IAS 28. These Amendments have not yet been endorsed by the EU.

- The **IASB has issued the Annual Improvements to IFRSs 2015 – 2017 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. These annual improvements have not yet been endorsed by the EU.

    - **IFRS 3 Business Combinations and IFRS 11 Joint Arrangements:** The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
    - **IAS 12 Income Taxes:** The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognized.
    - **IAS 23 Borrowing Costs:** The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

- **IAS 19: Plan Amendment, Curtailment or Settlement (Amendments)**
  The Amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. These Amendments have not yet been endorsed by the EU.

- **Conceptual Framework in IFRS standards**
  The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. Its objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020.

- **IFRS 3: Business Combinations (Amendments)**
  The IASB issued amendments in Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The Amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, with earlier application permitted. These Amendments have not yet been endorsed by the EU.

2. Basis of preparation (continued)

d) Standards and Interpretations that are issued but have not yet come into effect (continued)

- **IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material' (Amendments)**
  The Amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The Amendments clarify the definition of material and how it should be applied. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. In addition, the explanations accompanying the definition have been improved. The Amendments also ensure that the definition of material is consistent across all IFRS Standards. These Amendments have not yet been endorsed by the EU.

e) Significant accounting judgments and estimates

In the process of applying the Group and Bank's accounting policies, management is required to use its judgments and make estimates in determining the amounts recognized in the consolidated and separate financial statements. The most significant use of judgments and estimates are as follows:

Fair value of financial instruments
Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities. The valuation of financial instruments is described in more detail in Note 43.

Expected credit losses on financial assets at amortised cost and FVOCI

The measurement of impairment losses both under IFRS 9 and IAS 39 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Bank reviews its loans and advances to customers at each reporting date to assess whether there is any objective evidence of impairment. The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days, whether a severe alteration in the counterparty's financial standing is observed, entailing a high probability that the debtor will not be able to fully meet its credit obligations, whether concessions in the form of restructuring were consented under the circumstances of financial hardship experienced by the debtor, whether legal procedures were initiated or the debtor was transferred to specialized recovery structures (regardless of the number of days past due).

2. Basis of preparation (continued)

e) Significant accounting judgments and estimates (continued)

In IFRS 9, the Bank's expected credit loss model (ECL) relies on several underlying assumptions regarding the choice of variable inputs and their interdependencies, which affect the level of allowances:

- The internal credit grading model, which assigns probabilities of default (PDs) to the individual grades
- The criteria defined (both in relative and absolute terms) for the assessment of significant increase in credit risk since initial recognition and consequently the computation of allowances based on life time expected credit loss (LTECL)
- The grouping of financial assets when their ECL is measured on a collective basis
- The development of ECL model, including the various formulas and the choice of inputs
- The macroeconomic scenarios and their probability weightings based on which ECL is derived

In IAS 39, significant accounting judgements, estimates and assumptions related to impairment losses on financial assets used by the Group are:

- For individually significant loans and advances, the Group and Bank identifies and quantifies the expected future cash flows to be used for a total or partial reimbursement of the obligations, based on the capacity of the client/business to generate revenues, proceeds resulting from sale of collaterals and other clearly identified sources of repayment. The individual assessment threshold is defined in between 500 -1,500 thousands EUR, depending on the client type and customers' management departments.

- The remaining loans and advances classified as impaired are grouped based on similar credit risk characteristics (debtor segmentation, product type, impairment trigger, delinquency) and a collectively estimated impairment allowance is computed against these exposures. The estimated loss rates, determined at the level of each sub-portfolio, are based on statistical observations and expertly adjusted, in order to reflect the perspectives of the recovery process and of the business environment.

- The Group and Bank also books provisions for assets for which losses were incurred but yet not reported. The collective assessment takes into account the depreciation that is likely to affect the portfolio, determined based on statistically assessed probabilities of default and loss given default rates. The probability of default is estimated as an average of the default rates observed on a relevant time horizon, in order to reflect current context, while the loss given default corresponds to the newly defaulted clients.

IAS 39 methodology and assumptions used for estimating the provisioning parameters for both impaired and not impaired collectively assessed financial assets, were periodically reviewed in order to reduce the potential gaps between estimated losses and observed losses during a certain period of time. The level of provisions is back-tested at least annually, by means of statistical analysis.

2. Basis of preparation (continued)

e) Significant accounting judgments and estimates (continued)

Provisions for other risks and charges

The Bank operates in a regulatory and legal environment that, by nature has a heightened element of litigation risk inherent to its operations and, as a result it is involved in various litigations or is subject to various obligations arising from legislation in force.

When the Bank can reliably measure the outflow of economic benefits in relation to a specific case and considers such outflows to be probable, the Bank records a provision against the case, as mentioned in this note. Where the probability of outflow is considered to be remote, or probable, but a reliable estimate cannot be made, a contingent liability is disclosed.

Generally, the first step is to establish the existence of the present obligation followed by the estimation of the amount needed to settle that obligation taking into account a number of factors including legal advice, the stage of the matter and historical evidence from similar incidents. Significant judgment is required to conclude on these estimates.

In case of litigations:

i. For a single individual litigation the Bank assess whether there is more likely than not to have an unfavourable court decision considering the factors mentioned above; then it estimates the amount at risk; in case there are several scenarios possible with different outcomes, the amount at risk is the weighted average of the amounts at risk for each scenario using the probability distribution for all scenarios (100% is allocated to the possible scenarios) and provisions 100% of the estimated amount;

ii. For multiple litigations, the assessment of “more likely than not” could be substantiated for the entire population using statistics and provision computation to be made at pool level.

In case of obligations arising from various legislation, the bank assesses first if there is no realistic alternative of settling that obligation, and if not, it estimates the amount needed to settle that obligation (using similar approach as above) and books provisions representing 100% of the estimated amount.

Please refer to note 24 for more details.

f) Segment information

A segment is a component of the Group and Bank:

- That engages in business activity from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);
- Whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and;
- For which distinct financial information is available;

The Group and Bank’s segment reporting is based on the following segments: *Retail* including Individuals and Small Business, *Non-retail* including Small and medium enterprises (“SMEs”) and Large corporate and *Corporate Center* including: treasury activities, ALM and other categories unallocated to the business lines mentioned above (fixed assets, taxes, equity investments, etc).

3. Summary of significant accounting policies

a) Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the benefits can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

i) Interest and similar income

For all financial instruments measured at amortized cost and interest bearing financial instruments classified as FVOCI (or classified under available-for-sale category under IAS 39), interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument. The effective interest is applied to the gross carrying amount for assets classified in Stage 1 or 2 and to all financial liabilities. For financial assets classified as Stage 3 or POCI the effective interest rate is applied to the net carrying amount.

The calculation takes into account all contractual terms of the financial instrument and includes any origination fees and incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate. The net carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

ii) Fee and commission income

The Group and Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

(i) Fee income earned from services that are provided over a certain period of time are accrued over that period. These fees include asset management, custody and other management and advisory fees.

(ii) Fee income from providing transaction services: Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses. These fees are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

iii) Dividend income

Revenue is recognized when the Group and Bank's right to receive the payment is established, generally when the shareholders approve the dividend.

iv) Net trading income

Net trading income comprises gains less losses related to assets and liabilities held for trading and derivatives and includes all realised and unrealised fair value changes, interest, dividends and foreign exchange differences. Interest income from all interest bearing trading financial assets required to be measured at FVPL is recognised part of the net trading income.

3. Summary of significant accounting policies (continued)

a) Recognition of income and expenses (continued)

v) Levies

IFRIC 21 “Levies” clarifies the accounting for a liability to pay a levy. For an entity, the obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation. The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time. Furthermore, if an obligation to pay a levy is triggered when a minimum activity threshold is reached, the corresponding liability is recognised when that minimum activity threshold is reached.
The main related taxes which fall under the provisions of IFRIC 21 are as follows:

- The Bank annual contribution to Deposit Guarantee Scheme is fully recognised in the income statement at 1st January of the year in which the payment is made.
- The Bank annual contribution to the Single Resolution Fund, is fully recognised in the income statement at 1st January of the year in which the payment is made.

b) Financial instruments - recognition

1) Initial recognition and date of recognition

Loans and advances to customers are recognised when funds are transferred to the customers’ accounts. The Bank recognises balances due to customers when funds are transferred to the Bank. Other financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers and banks, are initially recognised on the settlement date. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

2) Measurement categories of financial assets and liabilities

Financial instruments are initially recognised at their fair value including arrangements costs. Trade receivables are measured at the transaction price.

Starting 1 January 2018, in accordance with IFRS 9 classification, the Group classifies financial assets, except for derivatives and equity instruments, in the following measurement categories:

- Fair value through profit and loss (FVPL);
- Fair value through other comprehensive income (FVOCI); or
- Amortised cost.

Classification and subsequent measurement of financial assets is generally based on the Group business model to manage the assets and the cash flow characteristics of the assets.

Before 1 January 2018, the Bank classified its financial assets as loans and receivables (amortised cost), FVPL or available-for- sale category based on:

- intention to sell or repurchase in the near term
- designation upon initial recognition as at FVPL or as available-for-sale
- positive intention and ability to hold until maturity
- method to recover the initial investment, other than because of credit deterioration

3. Summary of significant accounting policies (continued)

b) Financial instruments - recognition (continued)

In both IFRS 9 and IAS 39, the Group classifies and measures the financial liabilities at amortised cost.

The Bank classifies and measures its derivative and trading portfolio as FVPL.

Starting 1 January 2018, Group measures the equity instruments at fair value through profit and loss. Gains and losses on equity investments measured at fair value through profit and loss are included in the line "Net gains on financial assets measured at fair value through profit and loss" in the statement of profit and loss.

Before 1 January 2018, equity instruments represented by fund units and equity participations were classified as available for sale. At IFRS 9 transition date, the Group reclassified the OCI reserve related to equity instruments to retained earnings.

In the Bank's Separate Financial Statement, the equity instruments representing investment in associates and subsidiaries continue to be measured at cost in accordance to IAS 27 "Separate financial statements".

c) Financial instruments – classification and measurement

Starting 1 January 2018 the Group classifies its financial assets into one of the following categories based on the assessment of business model and SPPI characteristics, as follows:

- Financial assets that are held for collection of contractual cash flows and cash flows represent solely payments of capital and interest (SPPI) are classified and measured at amortised cost. In this category the Group includes the loans granted to customers, deposits placed with banks, corporate bonds and repurchase transactions part of banking book portfolio.
- Financial assets that are held for collection of contractual cash flows and for selling the assets and the contractual cash flows represent solely payments of capital and interest are measured at fair value through other comprehensive income. Treasury bonds in banking book portfolio are classified and measured at fair value through other comprehensive income.
- Financial assets that are held for trading, regardless of the cash flow characteristics are measured at fair value through profit and loss. In this category the Group includes the sub-portfolio of treasury bonds, placements made to banks and repurchase transaction held for trading.

1) Business model assessment

The business model assessment is one of the two steps to classify financial assets.

The Group's business model reflects how it manages its financial assets in order to generate cash flows; the business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

The business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. Accordingly, this condition is not an instrument-by-instrument approach to classification and should be determined on a higher level of aggregation.

The business model assessment is performed on the basis of scenarios that the Group reasonably expects to occur, without taking 'worst case' or 'stress case' scenarios. The Group assesses the business model for newly originated existing financial assets, considering information about how cash flows were realized in the past (namely before the date of the origination of new assets), along with all other relevant information. This means that there is no 'tainting' concept, as in the treatment of held to maturity financial assets under IAS 39, but if there is a change in the way that cash flows are realized then this will affect the classification of assets originated after the date of that change.

3. Summary of significant accounting policies (continued)

c) Financial instruments – classification and measurement (continued)

1) Business model assessment (continued)

In some circumstances, the Bank separates a portfolio of financial assets into sub-portfolios to reflect how an entity manages them. Those portfolios are split and treated as separate portfolios, provided the assets belonging to each sub-portfolio are separately defined (please see Note 4 – classification of financial assets).

2) SPPI test

As a second step of its classification process the Group performs the assessment of the characteristics of the contractual cash flows aiming to identify whether the contractual cash flows are "solely payments of principal and interest on the principal amount outstanding" – SPPI test. The SPPI assessment is a one-off exercise and is performed at the initial recognition of the financial asset.

The contractual cash flow characteristics test is designed to screen out financial assets on which the application of the effective interest method either is not viable from a pure mechanical standpoint or does not provide useful information about the uncertainty, timing and amount of the financial asset's contractual cash flows.

The principal for the purpose of applying SPPI test is "the fair value of the asset at initial recognition" and it may change over the life of the financial asset (e.g., if there are repayments of principal).

The most significant elements of interest are typically the consideration for the time value of money and credit risk. Interest can also include consideration for other basic lending risks (for example, liquidity risk) and costs (for example, administrative costs) associated with holding the financial asset for a particular period of time. In addition, interest can include a profit margin that is consistent with a basic lending arrangement.

Unlike the Business model test, the contractual characteristic test on transition is to be performed retrospectively at the date of initial recognition of the contract, not at the date of initial application.

To make the SPPI assessment, the Group applies judgements and considers relevant factors such as the currency in which the financial asset is denominated and the period for which the interest rate is set.

3) Debt instruments at FVOCI (new IFRS 9 category)

These instruments largely comprise treasury bonds that had previously been classified as financial investment as available for sale under IAS 39.

After initial recognition FVOCI financial assets are measured at fair value with gains or losses being recognized as OCI until the investment is derecognized. The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the statement of financial position date. Interest income and foreign exchange gains and losses are recognised in profit and loss.

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the assets.

3. Summary of significant accounting policies (continued)

c) Financial instruments –classification and measurement (continued)

4) Derivatives that are not designated accounting hedging instruments

The Group uses derivative financial instruments such as forward currency contracts, currency swaps, currency options, swaps and cross currency swaps on interest rate, as products offered to its clients but also to hedge its risks associated with interest rate, liquidity and exchange rate. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value.

Derivatives are carried as assets when their fair value is positive and as liabilities when fair value is negative. Any gains or losses arising from changes in fair value of derivatives that are not designated as hedge accounting instruments are taken directly to profit or loss for the year.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest swap contracts is determined by reference to market values of similar instruments.

5) Derivatives that are designated accounting hedging instruments

The Group and Bank designates certain derivatives held for risk management as hedging instruments in qualifying accounting hedging relationships. The Group and Bank formally documents the relationship between the hedging instruments and hedged item, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship.

The Group and Bank makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, as to whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value during the period for which the hedge is designated. The actual results of the hedge as recommended by IAS 39 should be in the range of 80-125 percent, but the Group and Bank uses a more prudent approach and the range considered is 88-114 percent.

The Group and Bank uses fair value hedges. When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognized asset or liability or a firm commitment that could affect profit or loss, changes in the fair value of the derivative are recognized immediately in profit and loss together with changes in the fair value of the hedged item that are attributable to the hedged risk.

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. Any adjustment up to that point to a hedged item for which the effective interest method is used, is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

6) Financial assets and financial liabilities held for trading

The Bank classifies financial assets or financial liabilities as held for trading when they have been purchased or issued primarily for short-term profit making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit taking. Held-for-trading assets and liabilities are recorded and measured in the statement of financial position at fair value.

3. Summary of significant accounting policies (continued)

c) Financial instruments –classification and measurement (continued)

6) Financial assets and financial liabilities held for trading (continued)

Changes in fair value are recognised in net trading income. Interest income or expense is recorded in net trading income according to the terms of the contract, or when the right to payment has been established. Included in this classification are debt securities, repurchase transactions and short positions acquired principally for the purpose of selling or repurchasing in the near term.

7) Repurchase agreements

Securities sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognized in the statement of financial position as securities and are measured in accordance with the applicable accounting policies. The liability for amounts received under these agreements from banking book portfolio is included in customers' or interbank deposits. The difference between sale and repurchase price is treated as interest expense using the effective yield method. Assets acquired with a corresponding commitment to resell at a specified future date (reverse repos) from the banking book portfolio are recorded as loans and advances

8) Borrowings

Borrowings are initially recognized at the fair value of the consideration received less directly attributable transaction costs. Subsequently borrowings are stated at amortized cost using the effective interest rate method. Any discount or premium is integral part of the effective interest rate.

9) Financial guarantees, letter of credits and loan commitments

In the ordinary course of business, the Group and Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances and performance guarantees.

Financial guarantees are initially recognized in 'Other liabilities' line with the amount of the premium received being the instruments' fair value. Subsequent to initial recognition, the Group and Bank's liability under each guarantee is measured at the higher of the amount initially recognised less the cumulative amortisation recognised in the income statement and – under IAS 39 - and the best estimate of expenditure required settling any financial obligation arising as a result of the guarantee, or –under IFRS 9- an ECL provision.

Any increase in the liability relating to financial guarantees is taken to the income statement in 'Credit loss expense'. The premium received is recognized in the income statement in 'Net fees and commission income' on a straight line basis over the life of the guarantee.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, under IAS 39, a provision was made if they were an onerous contract but, from 1 January 2018, these contracts are in the scope of the ECL requirements.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded on in the statement of financial position.
The nominal values of these instruments together with the corresponding ECLs are disclosed in Note 41 and in Note 24.

3. Summary of significant accounting policies (continued)

d) Financial assets - derecognition

The Group derecognizes a portfolio of financial assets, a financial asset or a part of a financial asset (herein after called „financial asset“) when and only when one of the following conditions is fulfilled:

- The contractual rights to the cash flows expire;
- It transfers the financial asset and the transfer qualifies for derecognition;
- Voluntarily renounces its rights over the financial asset due to the asset being considered irrecoverable or in order to grant a concession to the debtor;
- Significant modification of a financial asset that generate the extinguishment of the existing financial asset and recognition of a new financial asset.

Derecognition due to substantial modification of terms and conditions

In certain circumstances, the Group renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms. The Group does this by considering both quantitative and qualitative factors that are substantially changing the size or the nature of lender's risks associated with the pre-existing loan contract.

If the new terms are substantially different, the Group derecognises the original financial assets and recognises a "new" financial asset. The new financial asset is initially recognized at fair value and the classification and subsequent measurement is reassessed considering the new business model and the contractual cash flows characteristics. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes. All financial assets that are impaired at the date of initial recognition (first origination or re-origination due to significant changes) are classified as purchased or originated credit impaired (POCI).

On initial recognition the difference between transaction price and fair value of new financial asset is recognised in P&L for loans where the fair value is calculated based on observable inputs (loans not impaired at the date of modification) or amortized using effective interest rate for loans where fair value is calculated based on internal estimations (impaired loans at the date of modification).

When assessing the new terms in order to establish if they are significantly modified, the Group considers if the change is made in order to increase recoverability of the pre-existing loan. Changes made for the purpose of increasing the received cash flows and which are not considered significant change of the contractual characteristics do not generate derecognition.

The following modifications are considered significant contractual changes:

Quantitative criteria:

- interest rate margin modification higher than 3%;the threshold is subject to review depending on the market conditions;
- tenor prolongation or reduction for non-revolving financial assets over 24 months or over 50% from remaining tenor;

3. Summary of significant accounting policies (continued)

d) Financial assets - derecognition (continued)

Qualitative criteria refer to contractual modifications that are substantially changing the size or the nature of lender's risks associated with the pre-existing loan contract and are applicable to all financial assets:

- change of the denomination currency;
- change of the type of interest (variable or fixed) for performing loans (commercial renegotiation);
- contract changed obligor / counterparty;
- consolidation of two or more loans to one loan (many to 1);
- split of one loan to two or more loans (1 to many);
- modification of an SPPI compliant contract by introducing a features that is non-SPPI or modification of a non-SPPI contract by removing the features that are non-SPPI through commercial renegotiation;
- change of a commercial product or use of the same product but from updated bank commercial offer available at the change date for performing loans (commercial renegotiation);
- renewal of a performing revolving loan (regardless of new tenor) if a substantive risk analysis is performed;

If the modifications does not result in cash flows that are significantly different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank recognise a gain or loss, to the extent that an impairment loss has not been recorded.

Derecognition other than for substantial modification

A financial asset is derecognized where either:

- The rights to receive cash flows from the assets have expired;
- The Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- The Group has transferred its rights to receive cash flows from the asset and either a) has transferred substantially all the risks and rewards of the asset, or b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially changed, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts are recognized in profit or loss

Write-offs

The Bank's accounting policy under IFRS 9 remains the same as it was under IAS 39. A write off is performed when the entire loan is deemed uncollectible (very high uncertainty regarding recoverable amount and timeframe). Write-off is not conditioned by the closure of the legal procedures, nor does it imply the forfeit of the bank's claims to the receivables / financial asset. A write off is performed only where the chances of recoveries are remote.

3. Summary of significant accounting policies (continued)

d) Financial assets - derecognition (continued)

The Bank performs permanent write offs (derecognition) under certain situations, such as:

- the financial assets are considered immaterial, thus do not justify the initiation of the recovery process
- the collaterals which cover the receivables have a recovery value deemed immaterial and no other recovery sources could be identified
- exhaustion of all legal means
- end of the statute of limitation period for enforcement rights, etc.

Any recoveries of previously written-off loans and receivables are recognized as income.

e) Impairment model of financial assets (policy applicable from 1 January 2018)

IFRS 9 replaces the "incurred loss "model in IAS 39 with an "expected credit loss" - ECL model. Consequently, starting 1 January 2018 the Group assesses on an forward-looking basis the expected credit losses ("ECL") for the following categories of financial assets: loans and placed deposits measured at amortised cost, debt instruments measured at fair value to other comprehensive income, loan commitments and financial guarantee contracts, contract assets and trade receivables.

The group recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money;
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The ECL calculation considers both the number of days past due recorded by the receivables and the credit risk analysis performed for clients with granted loans.

For contract assets and trade receivables, the Group elected to apply the simplified approach for measurement of expected credit losses.

3. Summary of significant accounting policies (continued)

e) Impairment model of financial assets (policy applicable from 1 January 2018) (continued)

Overview of the ECL principles

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The ECL is computed from the time of origination.

Consequently, financial assets subject to loss allowances can be classified in Stage 1, Stage 2, Stage 3 or POCI, as described below:

- **Stage 1** when there is insignificant or no impairment of credit quality since initial recognition; Loss allowance shall be equal to 12mECL
- **Stage 2** when a financial asset shown significant increase in credit risk since initial recognition, though not impaired; Loss allowance shall be equal to LTECL
- **Stage 3** financial assets classified as impaired; Loss allowance is represented by LTECL
- **POCI** financial assets that are credit impaired on initial recognition. Loss allowance shall be equal to LTECL. ECLs are only recognized or released to the extent that there is a subsequent change in the expected credit losses.

The expected credit loss may be calculated either individually or collectively from IFRS 9 perspective. The Bank model for computing the expected credit losses is:

- Individual or collective assessment for clients in Stage 3
- Collective assessment for clients in Stage 2 or Stage 1

Staging criteria

The Bank has established criteria to perform the assessment of significant increase in credit risk since initial recognition on a monthly basis, considering both relative and absolute thresholds.

- For Non Retail portfolio (Corporate and Public Authorities), the staging criteria are:
  Stage 3: criteria as provided by EBA default definition as presented below.
  Stage 2: assessment of
    Relative threshold : Doubling of the lifetime PD since origination
    Absolute thresholds: Clients rated with the last three risk classes in term of risk, Clients with expired ratings more than three months, Clients not rated, Healthy clients with restructured facilities in probation and DPD < 30, Clients with DPD > 30
  Stage 1: include all clients not classified in Stage 2 or Stage 3 based on the above conditions
- For Small Business, the staging criteria are:

  Stage 3: criteria as provided by EBA default definition as presented below
  Stage 2: assessment of
    Relative threshold: Doubling of the lifetime PD since origination
    Absolute thresholds: Clients rated with the last three risk classes in term of risk, Healthy clients with restructured facilities in probation and DPD < 30, Clients with DPD > 30
  Stage 1: include all clients not classified in Stage 2 or Stage 3 based on the above conditions

- For Individuals and Professionals , the staging criteria are:

3. Summary of significant accounting policies (continued)

e) Impairment model of financial assets (policy applicable from 1 January 2018) (continued)

Stage 3: criteria as provided by EBA default definition as presented below
Stage 2: assessment of
Relative threshold: Doubling of the lifetime PD since origination
Absolute thresholds: Clients rated with the last two risk classes in term of risk, healthy clients with restructured facilities in probation and DPD < 30, Clients with DPD > 30
Stage 1: include all clients not classified in Stage 2 or Stage 3 based on the above conditions

In accordance with EBA default definition, the main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days, whether a severe alteration in the counterparty's financial standing is observed, entailing a high probability that the debtor will not be able to fully meet its credit obligations, whether concessions in the form of restructuring were consented under the circumstances of financial hardship experienced by the debtor, whether legal procedures were initiated or the debtor was transferred to specialized recovery structures (regardless of the number of days past due).

ECL calculation techniques:

The key elements of ECL calculation are outlined below:

- PD *Probability of Default* models are based on a two-step approach: building of the through-the-cycle (TTC) marginal PD curve and Adjustment of the TTC curve to incorporate point in time and forward looking information;
- LGD *Loss Given Default* model takes into account cashbacks, portfolio sales and collateral recoveries;
- EAD *Exposure at default* estimation at each time step is based on ALM models: prepayment models for contracts with repayment schedule and drawing rate models for contracts with no repayment schedule.
- Point in time and forward looking transformation for ECL parameters;

Forward-looking information

Under IFRS 9, expected losses are computed based on three macroeconomic scenarios: optimistic, base and stress scenario. Consequently, expected credit losses are influenced both by changes in portfolio quality as well as changes in macroeconomic projections. Macroeconomic models are sensitive to GDP, RON/EUR exchange rate and unemployment rate. Final ECL is derived using the weighted average of the three scenarios (based on their probabilities of occurrence).

The inputs and models used for calculating ECL may not always capture all characteristics of the market at the date of the financial statements. To reflect this, the Bank assesses the need/opportunity for additional amounts of provisions in the form of overlays, in order to address:

- Sector of activity specific risks (adjustment of ECL on sectors that have a different default behaviour from the whole calibration segment)
- Visible macroeconomic threat impossible to be captured by the models (typically, when the predicted stress did not occur in the observed past serving as a base for models)

The overlays booked by the Bank represent 9.5% of total stock of provisions.

3. Summary of significant accounting policies (continued)

e) Impairment model of financial assets (policy applicable from 1 January 2018) (continued)

Impairment/default principles

Individual impairment triggers and default definition remain the same between IAS 39 and IFRS 9.

Impairment and recoverability are assessed, measured and recognized individually for loans and receivables that are individually significant, and on a portfolio basis for impaired loans and receivables that are not individually significant. Loans and receivables for which an objective evidence of impairment was not identified, regardless the loans are individually significant or not, are included in a portfolio for collective impairment assessment. The carrying amount of the asset is reduced to its estimated recoverable amount through the use of an allowance account. The loss amount is recognised into profit and loss. If the amount of the impairment subsequently decreases due to an event occurring after the impairment, the release of the allowance is credited to the income statement.

The Group uses default definition as per valid EBA definition of default. All the PD curves as entering parameters for ECL computation were calibrated applying retroactively the EBA definition to the portfolio, to ensure the consistency in the default entrance during the time of calibration.

Collateral valuation

To mitigate its credit risks on financial assets, the Bank seeks to use collateral, where possible. The collateral comes in various forms, such as cash, letters of guarantees, real estate, etc.

Real estate collaterals are regularly valuated. Their market value is estimated by certified evaluators that can be either external or internal valuators. Depending on the collateral type, revaluation is performed:

- Yearly, for commercial / industrial / agricultural real-estate, plots of land
- At least once every 3 years, for residential real estate

or with higher frequency if the real estate market displays a significant negative evolution.

The value of collateral affects the calculation of ECLs through LGD parameter, which is an estimate of the loss arising in the case where a default occurs at a given time, taking into account all the cash flows collected from the client, as well as the recovery value of collaterals (net of any cost and additional losses), by incorporating the effect of time value of money. The recovery value of a collateral is determined by applying discount coefficients to its market value when computing the provisions on individual assessment basis.

f) Foreign currency translation

Transactions in foreign currencies are initially recorded using the functional currency rate ruling on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the statement of financial position date. All differences are taken to the profit and loss.
Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.
The exchange rates of the currencies with the most significant impact on the Group and Bank's consolidated and separate financial statements as of December 31, 2018 and 2017 were as follows:

3. Summary of significant accounting policies (continued)

f) Foreign currency translation (continued)

	December 31, 2018	December 31, 2017
RON/ EUR	4.6639	4.6597
RON/ USD	4.0736	3.8915

g) Cash and cash equivalents

For the purpose of the cash flow statements, cash and cash equivalents comprise cash in hand, current accounts and short-term placements at other banks, excluding amounts in transit and loans to banks with more than 90 days maturity from the date of acquistion. The Group and Bank did not include in cash and cash equivalents the amounts representing minimum compulsory reserve held at National Bank of Romania.

h) Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Group as a lessor

Finance leases are those which transfer to the lessee substantially all the risks and benefits incidental to ownership of the leased item and are recognized as assets at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are allocated both to the principal and the interest income on a pattern reflecting a constant periodic rate of return on the lessor's net investment outstanding in respect of the finance lease.

Leases where the Group retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized in income on a straight-line basis over the lease term.

Group as a lessee

Leases which do not transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognized as an expense in the income statement on a straight line basis over the lease term. Rents payable are recognized as an expense in the period in which they are incurred.

i) Investment in associates

An associate is an enterprise in which the Group and Bank exercises significant influence and is neither a subsidiary nor a joint venture. Associates are accounted using the equity method for consolidation purposes and cost method for separate financial statements.

Under the equity method, an investment in an associate is carried in the statement of financial position at cost plus post-acquisition changes in the Group and Bank's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortized. The Group and Bank does an assessment of any additional impairment loss with respect to the net investment in associate.

3. Summary of significant accounting policies (continued)

i) Investment in associates (continued)

The income statement reflects the share of the results of operations of associates. Where there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any changes and discloses this, when applicable, in the statement of changes in equity.

The reporting dates of associates and the Group are identical and the associates' major accounting policies conform to those used by the Group for like transactions and similar events in similar circumstances.

j) Tangible assets

The cost of tangible asset is recognized as an asset if, and only if: (a) it is probable that future economic benefits associated with the item will flow to the Group; and (b) the cost of the item can be measured reliably.

Buildings and other tangible assets are stated at cost less accumulated depreciation and any impairment loss.

In accordance with IAS 29 "Reporting in Hyperinflationary Economies", tangible assets have been restated, as appropriate, by applying the change in the consumer price index from the date of acquisition through December 31, 2003.

Depreciation is computed on a straight-line basis over the estimated useful life of the asset, as stated below:

Asset type	*Years*
Buildings and special constructions	10-40
Computers and equipment	3-5
Furniture and other equipment	15
Vehicles	5

Land is not depreciated. Construction-in-progress is not depreciated until used. Expenses for repairs and maintenance are charged to operating expenses as incurred. Subsequent expenditure on property and equipment is recognized as an asset under the same general recognition principle used at initial recognition.

The carrying values of tangible assets are reviewed for impairment at each statement of financial position date or whenever events or changes in circumstances indicate the carrying value may not be recoverable. Where the carrying amount of a tangible asset is greater than the estimated recoverable amount, it is written down to its recoverable amount. Tangible assets are derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognized.

k) Investment properties

Assets are classified as investment property if the property (land or a building - or part of a building - or both) is held (by the Bank or Group as owner) to earn rentals or for capital appreciation or both, rather than for: (a) use in the production or for administrative purposes; or (b) sale in the ordinary course of business.

Investment properties are measured initially at cost including transaction costs. Subsequent to initial recognition, investment properties are carried at cost less any accumulated depreciation and any accumulated impairment losses.

3. Summary of significant accounting policies (continued)

k) Investment properties (continued)

Investment properties are derecognized when either they have been disposed off or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal.

Any gains or losses on the retirement or disposal of an investment property are recognized in the income statement in the year of retirement or disposal.

Transfers are made to investment property when and only when, there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party, or ending of construction or development. Transfers are made from investment property when and only when, there is a change in use evidenced by commencement of owner-occupation or commencement of development with a view to sale. The depreciation of buildings included in investment properties is computed using the linear method over the useful lives as presented in note 3.j).

l) Non-current assets held for sale

Non-current assets for which the carrying amount is estimated to be recovered principally through a sale transaction rather than continuing use are classified as held for sale.

Assets held for sale are initially and subsequently measured at the lower of the carrying amount and the fair value at the date of the measurement. For any decrease of the fair value below the carrying amount, impairment is recognised into profit and loss accounts. The increase of the fair value of a held for sale asset is accounted for as an impairment release. Fair value increase is recognised up to the level of the initial carrying amount of the asset.

On the period an asset is classified as held for sale no depreciation charged is recognised. An assets that ceases to be classified as held for sale is measured at the lower of the carrying amount before the asset was classified as held for sale adjusted by the depreciation that would have been recognised had the asset was not classified as held for sale and its recoverable amount.

m) Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group and Bank's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment at each reporting date or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where the recoverable amount of cash-generating unit is less than the carrying amount, an impairment loss is recognized.

n) Intangible assets

Intangible assets are measured initially at cost. Following initial recognition intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

All intangible assets of the Group and Bank carried as of December 31, 2018 and 2017 have finite useful lives and are amortized on a straight-line basis over the estimated useful life of up to 5 years. The amortization period and the amortization method are reviewed at least at each financial year end.

3. Summary of significant accounting policies (continued)

n) Intangible assets (continued)

At each statement of financial position date or whenever events or changes in circumstances indicate the carrying value may not be recoverable, intangibles are reviewed for impairment. Where the carrying amount of an asset is greater than the estimated recoverable amount, it is written down to its recoverable amount by recognising impairment.

o) Employee benefits

Short-term employee benefits:
Short-term employee benefits include wages, salaries and social security contributions. Short-term employee benefits are recognized as expense when services are rendered.

Social Security Contributions:
The Group and its subsidiaries as well as its employees are legally obliged to make contributions described in the financial statements as social security contributions to the National Pension Fund, managed by the Romanian State Social Security (a defined contribution plan financed on a pay-as-you-go basis). The Group and Bank has no legal or constructive obligation to pay future benefits. Its only obligation is to pay the contributions as they fall due. If the members of the Romanian State Social Security plan cease to be employed by either the Group or its subsidiary, there will be no obligation on the Group to pay the benefits earned by these employees in previous years. The Group and Bank's contributions are included in salaries and related expenses.

Post-employment benefits:
The Group and Bank has a contractual obligation to pay to retiring employees a benefit calculated taking into account the salary at the date of retirement and the number of years served by the individual. The cost of providing benefits under defined benefit plans is estimated annually using the projected unit credit actuarial valuation method and is recognized to the income statement on an accruals basis.

Differences arising from changes in calculation assumptions (early retirements, discount rates, etc.) or differences between actuarial assumptions and real performance are recognized as actuarial gains and losses.

Actuarial gains and losses, excluding amounts expensed as net interest on the net defined benefit liability are components used to re-measure the net defined benefit liability. These components are immediately and fully recognised as unrealised gains and losses and presented under Reserves from defined pension plan. These items are subsequently never reclassified in income statement but transferred to retain earnings.

Where a new or amended plan comes into force, the past service cost is immediately recognized in profit or loss.

An annual charge is recorded under Personnel expenses for defined benefit plans, consisting of:
- the additional entitlements vested by each employee (current service cost);
- past service cost resulting from a plan amendment or a curtailment;
- the financial expense resulting from the discount rate (net interest on the net defined benefit liability);
- the settlement of plans.

3. Summary of significant accounting policies (continued)

o) Employee benefits (continued)

Share–based payment transactions:
Employees (including senior executives) of the Group and Bank receive remuneration in the form of SG share–based payment transactions, whereby employees render services as consideration for equity instruments (‘equity–settled transactions’) and Group Societe Generale attains certain ratios.
The cost of equity–settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (‘the vesting date’).

The cumulative expense recognized for equity–settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group and Bank ’s best estimate of the number of equity instruments that will ultimately vest. The expense recognized in Profit or Loss statement for a period is recorded in “Personnel expenses” and represents the movement in cumulative expense recognized as at the beginning and end of that period.

Where the terms of an equity–settled award are modified, the minimum expense recognized in “Personnel expenses” is the expense as if the terms had not been modified. An additional expense is recognized for any modification which increases the total fair value of the share–based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity–settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. This includes any award where non–vesting conditions within the control of either the entity or the counterparty are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Other benefits
The Bank also grants to all employees having a seniority in the Bank higher than 3 years as at January 1, 2014, an annual contribution to a private pension fund (Pillar 3) in total amount of EUR 200 /year/employee.

p) Taxation

The current tax is the amount of income taxes payable in respect of the taxable profit, computed in accordance with Romanian tax rules and accrued for in the period to which it relates.

Deferred income tax liabilities are recognized for all taxable temporary differences between the tax bases of assets and liabilities and their carrying amounts at the statement of financial position date for financial reporting purposes, which will result in taxable amounts in future periods.

Deferred income tax assets are recognized for all deductible temporary differences and carry-forward of unutilized tax losses to the extent that it is probable that taxable profit will be available, against which the deductible temporary differences and carry forward of unused tax losses can be utilized. Deferred income tax assets and liabilities are measured at the amount that is expected to be paid to or recovered from the tax authorities after taking into account the tax rates and legislation that have been enacted or substantially enacted until the statement of financial position date.

Current and deferred tax assets and liabilities are offset when they arise from the same tax reporting entity and relate to the same tax authority and when the legal right to offset exists. Income tax relating to items recognized directly in equity is recognized in equity and not in the income statement.

3. Summary of significant accounting policies (continued)

q) Provisions

Provisions are recognized when the Group and Bank has a present obligation (legal or constructive), as a result of a past event, it is probable that an outflow of embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as borrowing cost.

r) Contingencies

Contingent liabilities are not recognized in the financial statements but they are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

s) Earnings per share

Basic earnings per share are calculated by dividing net profit/ (loss) for the reporting period attributable to ordinary equity holders of the parent by the weighted average number of shares outstanding during the year. As of December 31, 2018 and 2017 there were no dilutive equity instruments issued by the Group and Bank.

t) Dividends on ordinary shares

Dividends on ordinary shares are recognized as a liability and deducted from equity when they are approved by the Group and Bank's shareholders.

u) Related parties

Parties are considered related with the Group and Bank when one party, either through ownership, contractual rights, family relationship or otherwise, has the ability to directly or indirectly control or significantly influence the other party in making financial and operating decisions.
Related party transaction represents a transfer of resources or obligations between related parties, regardless of whether a price is charged.

v) Subsequent events

Post - balance sheet events that provide additional information about the Group and Bank's position at the statement of financial position (adjusting events), or those that indicate that the going concern assumption is not appropriate are reflected in the financial statements. Post-balance sheet events that are not adjusting events are disclosed in the notes when significant.

(Amounts in thousands RON)

4. IFRS 9 transitory disclosures

The measurement category and the carrying amount of financial assets in accordance with IAS 39 and IFRS 9 at 1 January 2018 are compared as follows:

Group

		IAS 39 measurement		Re-classification	Re-measurement /Impact IFRS 9	IFRS9 measurement	
Financial assets	**Ref,**	**Category**	**Amount**			**Category**	**Amount**
Cash in hand		Loans and receivables	1,924,214		-	Amortised cost	1,924,214
Due from Central Bank		Loans and receivables	5,757,953		-	Amortised cost	5,757,953
Due from banks		Loans and receivables	2,549,512	(43,638)	(857)	Amortised cost	2,505,017
Deposits with banks	A	Loans and receivables	2,505,874		(857)		2,505,017
Repurchase transactions	B	Loans and receivables	43,638	(43,638)	-		-
Loans and advances to customers		Loans and receivables	29,608,422	(1,139,203)	(208,016)	Amortised cost	28,261,203
Repurchase transactions	C		1,139,203	(1,139,203)	-		-
Corporate bonds	D		257,311		(6,277)		251,034
Gross exposure value			257,311		(3,578)		253,732
Impairment provisions			-		(2,699)		(2,699)
Loans, gross exposure value			30,692,041	196,499	-		30,888,541
Loans, impairment provisions	E		(2,480,133)	(196,499)	(201,739)		(2,878,371)
Finance lease receivables			727,768		(8,310)		719,458
Derivatives and other financial instruments held for trading	B+C	Fair value through PL	637,686	1,182,841	-	Fair value through PL	1,820,527
Equity instruments	F	Available for sale	98,802		-	Fair value through PL	98,802
Treasury bills	G	Available for sale	12,036,572		-	Fair value throughOCI	12,036,572
Contract assets	H	Loans and receivables	33,736		(11,794)	Amortised cost	21,942
Trade receivables		Loans and receivables	85,814		-	Amortised cost	85,814
Investments in associates and subsidiares			151,860		-		151,860
			53,612,339		**(228,977)**		**53,383,362**
Other assets			1,202,516		-		1,202,516
Deferred tax asset			112,536		(14,332)		98,204
Total assets			**54,927,391**	**-**	**(243,309)**		**54,684,084**
Financial liabilities							
Due to banks		Amortised cost	885,970	(426,225)	-	Amortised cost	459,745
Deposits from banks			459,745		-		459,745
Treasury deposits	I		426,225	(426,225)	-		-
Due to customers		Amortised cost	44,219,686		-	Amortised cost	44,219,686
Borrowed funds		Amortised cost	1,252,455		-	Amortised cost	1,252,455
Derivatives and other financial instruments held for trading	I	Fair value through PL	138,044	426,225	-	Fair value through PL	564,269
			46,496,155		**-**		**46,496,155**
Other liabilities	J		**614,376**		**(25,604)**		**588,771**
Deferred tax liability			955		(955)		-
Provisions for financial guarantees and undrawn commitments	K		447,154		(138,046)		309,106
Total liabilities			**47,558,640**		**(164,605)**		**47,394,032**

(Amounts in thousands RON)

4. IFRS 9 transitory disclosures (continued)

Bank

		IAS 39 measurement		Re-classification	Re-measurement /Impact IFRS 9	IFRS9 measurement	
Financial assets	Ref,	Category	Amount			Category	Amount
Cash in hand		Loans and receivables	1,924,188		-	Amortised cost	1,924,188
Due from Central Bank		Loans and receivables	5,757,953		-	Amortised cost	5,757,953
Due from banks		Loans and receivables	2,530,468	(43,638)	(857)	Amortised cost	2,485,973
Deposits with banks	A	Loans and receivables	2,486,830		(857)	Amorrtised cost	2,485,973
Repurchase transactions	B	Loans and receivables	43,638	(43,638)			-
Loans and advances to customers		Loans and receivables	29,011,925	(1,139,203)	(190,573)	Amortised cost	27,682,149
Repurchase transactions	C		1,139,203	(1,139,203)	-		-
Corporate bonds	D		257,311		(6,277)		251,034
Gross exposure value			257,311		(3,578)		253,732
Impairment provisions					(2,699)		(2,699)
Loans, gross exposure value			30,022,036	190,174	0	Amortised cost	30,212,211
Loans, impairment provisions	E		(2,406,625)	(190,174)	(184,296)	Amortised cost	(2,781,095)
Derivatives and other financial instruments held for trading	B+C	Fair value through PL	637,689	1,182,841	-	Fair value through PL	1,820,530
Equity instruments	F	Available for sale	77,121		-	Fair value through PL	77,121
Treasury bills	G	Available for sale	12,036,572		-	Fair value throughOCI	12,036,572
Contract assets	H	Loans and receivables	33,249		(11,794)	Amortised cost	21,455
Trade receivables		Loans and receivables	28,781		-	Amortised cost	28,781
Investments in associates and subsidiares			158,594		-		158,594
			52,196,540		**(203,224)**		**51,993,316**
Other assets			1,184,899		-		1,184,899
Deferred tax asset			109,484		(17,520)		91,964
Total assets			**53,490,923**	**-**	**(220,744)**		**53,270,179**
Financial liabilities							
Due to banks		Amortised cost	885,970	(426,225)	-	Amortised cost	459,745
Deposits from banks			459,745		-		459,745
Treasury deposits	I		426,225	(426,225)			-
Due to customers		Amortised cost	44,387,308		-	Amortised cost	44,387,308
Borrowed funds		Amortised cost	48,530		-	Amortised cost	48,530
Derivatives and other financial instruments held for trading	I	Fair value through PL	138,044	426,225	-	Fair value through PL	564,269
			45,459,852		**-**		**45,459,852**
Other liabilities	J		555,530		**(25,604)**		529,926
Provisions for financial guarantees and undrawn commitments	K		447,154		(138,192)		308,962
Total liabilities			**46,462,536**	**-**	**(163,796)**		**46,298,740**

4. IFRS 9 transitory disclosures (continued)

As at 1 January 2018, the Group changed the impairment measurement from "incurred" to "expected loss" model. Adjustment to the carrying amount of financial assets measured at amortised cost are shown in transitory disclosure lines: A, D, E, H, K

As at 1 January 2018, the Group made the business model assessment on the circumstances existing at that date. The Treasury portfolio which includes interbank placements, derivatives, reverse repo and treasury bills is classified as held for trading and shall be measured at fair value through profit and loss.

- B, C – reverse repo transactions, previously classified in IAS 39 in "loans and advances" and "due from banks" and measured at amortised cost were included in line "derivative and other financial assets held for trading".

- E – the balance of unwinding adjustment classified according to IAS 39 in "loans - gross exposure" has been reclassified in "loans, impairment provisions" in accordance with IFSR9. The POCI impairment adjustment at the date of the initial recognition and the subsequent positive modification of the initial adjustment were reclassified from "loans, impairment provisions" into "loans gross exposure".

- H – additional expected credit loss adjustment related to fees with an indication of credit loss (DPD >90 days) of 11.8 million.

- I – treasury deposits previously classified in IAS 39 in "due to banks" and measured at amortised cost were included in line "derivative and other financial liabilities held for trading".

F - As at 1 January 2018, the Group has reclassified its previous IAS 39 AFS portfolio of equity instruments to the IFRS 9 financial assets at fair value through profit and loss category. The equity instruments AFS reserve in amount of 25,1 million was reclassified to retained earnings.

G - As at 1 January 2018, the Group has reclassified the sub-portfolio of treasury bills classified as available for sale in IAS 39 to the category of financial assets at fair value through other comprehensive income as per IFRS 9.

J - The IFRS 9 FTA fiscal impact resulting from the differences between impairment loss (IAS 39 vs IFRS 9) for loans granted to customers, fair value adjustments reclassification for equity instruments and from ECL recorded for deposit placed and loans granted to banks generated decrease in the current income tax liability of the period of 25.6 million.

(Amounts in thousands RON)

4. IFRS 9 transitory disclosures (continued)

The impact in retain earnings and other reserve from adoption of IFRS 9 is presented below:

Group

	Reference transition financial position note 4)	Reserve from available for sale assets / Reserves from financial assets at fair value through other comprehensive income	*of which:*		Retained earnings	*of which:*		Non-controlling interest	*of which:*		Total
			Gross amount	*Deferred tax*		*Gross amount*	*Deferred tax/Current tax*		*Gross amount*	*Deferred tax*	
IFRS 9 impact											
Equity instruments	F	(21,093)	(25,111)	4,018	21,093	25,111	(4,018)	-	-	-	-
Contract assets	H	-	-	-	(11,794)	(11,794)	-	-	-	-	(11,794)
Treasury bonds	G	6,473	6,473	-	(6,473)	(6,473)	-	-	-	-	-
Corporate bonds	D	(3,006)	(3,578)	573	-	-	-	-	-	-	(3,006)
Loans and advances, Due from banks, Corporate bonds impairment allowance	A, D, E	-	-	-	(165,848)	(196,923)	31,075	(7,031)	(8,371)	1,339	(172,879)
Finance lease	K	-	-	-	(6,980)	(8,310)	1,330	-	-	-	(6,980)
Financial guarantees and commitments provisions	J	-	-	-	115,961	138,048	(22,088)	-	-	-	115,961
Total IFRS 9 impact		**(17,626)**	**(22,216)**	**4,590**	**(54,042)**	**(60,341)**	**6,299**	**(7,031)**	**(8,371)**	**1,339**	**(78,699)**

(Amounts in thousands RON)

4. IFRS 9 transitory disclosures (continued)

Bank

	Reference transition financial position note 4)	Reserve from available for sale assets / Reserves from financial assets at fair value through other comprehensive income	*of which:*		Retained earnings	*of which:*		Total
			Gross amount	*Deferred tax*		*Gross amount*	*Deferred tax/Current tax*	
IFRS 9 impact								
Equity instruments	F	(21,093)	(25,111)	4,018	21,093	25,111	(4,018)	**(0)**
Contract assets	H	-	-	-	(11,794)	(11,794)	-	**(11,794)**
Treasury bonds	G	6,473	6,473	-	(6,473)	(6,473)	-	**0**
Corporate bonds	D	(3,006)	(3,578)	573	-	-	-	**(3,006)**
Loans and advances, Due from banks, Corporate bonds impairment allowance	A, D, E	-	-	-	(158,227)	(187,852)	29,624	**(158,227)**
Financial guarantees and commitments provisions	J	-	-	-	116,080	138,190	(22,110)	**116,080**
Total IFRS 9 impact		(17,626)	(22,216)	4,590	(39,321)	(42,818)	3,496	**(56,947)**

5. Segment information

The segments used for management purposes are based on customer type and size, products and services offered as follows:

In Retail (Individuals & Small Business) category the following customer's segments are identified:

- Individuals – the Bank provides individual customers with a range of banking products such as: saving and deposits taking, consumer and housing loans, overdrafts, credit card facilities, funds transfer and payment facilities, etc.
- Small business – business entities with annual turnover lower than EUR 1 million and having an aggregated exposure at group level less than EUR 0.3 million. Standardised range of banking products is offered to small companies and professional: saving and deposits taking, loans and other credit facilities, etc.

Retail customers include clients with similar characteristics in terms of financing needs, complexity of the activity performed and size of business for which a range of banking products and services with medium to low complexity is provided.

In Non –Retail category the following customer's segments are identified:

- Small and medium enterprises (companies with annual turnover between EUR 1 million and EUR 50 million and the aggregated exposure at group level higher than EUR 0.3 million);
- Large corporate (corporate banking and companies with annual turnover higher than 50 million EUR, municipalities, public sector and other financial institutions).

The Bank provides these customers with a range of banking products and services, including saving and deposits taking, loans and other credit facilities, transfers and payment services, provides cash-management, investment advices, securities business, project and structured finance transaction, syndicated loans and asset backed transactions.

The Corporate Center includes: treasury activities, ALM and other categories unallocated to Retail and Non-Retail business lines.

The Executive Committee monitors the activity of each segment separately for the purpose of making decisions about resource allocation and performance assessment.

(Amounts in thousands RON)

5. Segment information (continued)

Group

	December 31, 2018				December 31, 2017			
	Total	Retail	Non retail	Corporate Center	Total	Retail	Non retail	Corporate Center
Total assets	**55,719,369**	**21,739,288**	**8,625,000**	**25,355,080**	**54,927,391**	**21,010,219**	**9,325,971**	**24,591,201**
Loans and advances to customers, net & Finance lease receivables	30,364,288	21,739,288	8,625,000	-	30,336,190	21,010,219	9,325,971	-
Other assets	25,355,080	-	-	25,355,080	24,591,201	-	-	24,591,201
Total liabilities	**55,719,369**	**29,819,932**	**15,397,063**	**10,502,374**	**54,927,391**	**27,837,197**	**16,382,489**	**10,707,705**
Due to customers	45,216,995	29,819,932	15,397,063	-	44,219,686	27,837,197	16,382,489	-
Other liabilities	10,502,374	-	-	10,502,374	10,707,706	-	-	10,707,706

Bank

	December 31, 2018				December 31, 2017			
	Total	Retail	Non retail	Corporate Center	Total	Retail	Non retail	Corporate Center
Total assets	**54,089,354**	**20,902,021**	**7,991,322**	**25,196,011**	**53,490,923**	**20,254,098**	**8,757,827**	**24,478,998**
Loans and advances to customers, net & Finance lease receivables	28,893,343	20,902,021	7,991,322	-	29,011,925	20,254,098	8,757,827	-
Other assets	25,196,011	-	-	25,196,011	24,478,998	-	-	24,478,998
Total liabilities	**54,089,354**	**29,819,932**	**15,495,624**	**8,773,798**	**53,490,923**	**27,837,197**	**16,550,111**	**9,103,615**
Due to customers	45,315,556	29,819,932	15,495,624	-	44,387,308	27,837,197	16,550,111	-
Other liabilities	8,773,798	-	-	8,773,798	9,103,615	-	-	9,103,615

(Amounts in thousands RON)

5. Segment information (continued)

Group

	2018				2017			
	Total	Retail	Non retail	Corporate Center	Total	Retail	Non retail	Corporate Center
Net interest income	1,988,819	1,313,274	444,586	230,958	1,719,372	1,131,353	417,382	170,637
Fees and commissions, net	797,147	623,599	173,046	502	763,043	581,438	181,982	(377)
Total non-interest income	329,316	100,123	93,321	135,872	303,460	100,350	95,179	107,931
Operating income	**3,115,283**	**2,036,997**	**710,953**	**367,332**	**2,785,875**	**1,813,141**	**694,543**	**278,191**
Total operating expenses	**(1,489,665)**	**(1,084,192)**	**(381,144)**	**(24,329)**	**(1,473,218)**	**(997,243)**	**(411,350)**	**(64,625)**
Cost of risk	230,388	(46,250)	275,175	1,462	359,517	(109,500)	519,199	(50,182)
Profit before income tax	**1,856,004**	**906,556**	**604,984**	**344,466**	**1,672,174**	**706,398**	**802,392**	**163,384**
Total income tax	(292,903)	(142,908)	(95,369)	(54,626)	(257,599)	(108,993)	(124,286)	(24,320)
Profit for the period	**1,563,101**	**763,647**	**509,615**	**289,839**	**1,414,575**	**597,405**	**678,106**	**139,064**
Cost Income Ratio	**47.8%**	**53.2%**	**53.6%**	**6.6%**	**52.9%**	**55.0%**	**59.2%**	**23.2%**

Bank

	2018				2017			
	Total	Retail	Non retail	Corporate Center	Total	Retail	Non retail	Corporate Center
Net interest income	1,869,332	1,231,428	402,868	235,035	1,604,356	1,056,561	379,243	168,552
Fees and commissions, net	759,301	592,014	170,875	(3,587)	726,290	552,635	175,259	(1,604)
Total non-interest income	352,283	98,253	90,361	163,670	310,853	99,075	93,885	117,893
Operating income	**2,980,915**	**1,921,694**	**664,104**	**395,117**	**2,641,499**	**1,708,271**	**648,387**	**284,841**
Total operating expenses	**(1,399,639)**	**(1,014,853)**	**(361,014)**	**(23,772)**	**(1,387,568)**	**(930,927)**	**(392,200)**	**(64,441)**
Cost of risk	246,276	(25,987)	271,185	1,078	375,687	(95,904)	516,374	(44,783)
Profit before income tax	**1,827,552**	**880,854**	**574,275**	**372,424**	**1,629,618**	**681,440**	**772,561**	**175,617**
Total income tax	(281,564)	(135,710)	(88,476)	(57,378)	(249,234)	(104,930)	(118,961)	(25,343)
Profit for the period	**1,545,988**	**745,144**	**485,798**	**315,046**	**1,380,384**	**576,510**	**653,600**	**150,274**
Cost Income Ratio	**47.0%**	**52.8%**	**54.4%**	**6.0%**	**52.5%**	**54.5%**	**60.5%**	**22.6%**

(Amounts in thousands RON)

6. Cash in hand

	Group		Bank	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Cash in vaults	1,679,393	1,457,955	1,679,366	1,457,929
Cash in ATM	556,651	466,259	556,651	466,259
Total	**2,236,045**	**1,924,214**	**2,236,018**	**1,924,188**

7. Cash and cash equivalents details

Cash and cash equivalents:

For the purpose of the cash flow statements, cash and cash equivalents comprise cash in hand, current accounts and short term placements at other banks. The amounts in transit in amount of 105,461 (December 31, 2017: 176,714) and loans to banks, with more than 90 days maturity from the date of acquisition in amount of 54,975 (December 31, 2017: 73,266) for the Bank and also the ones amounting 73,398 (December 31, 2017: 92,301) for the Group are excluded. The Group and Bank did not include in cash and cash equivalents the amounts representing minimum compulsory reserve held at National Bank of Romania.

Group

	December 31, 2018	December 31, 2017
Cash in hand	2,236,045	1,924,214
Sight deposit with NBR		2,000,125
Current accounts and deposits with banks	3,137,485	2,280,495
Total	**5,373,530**	**6,204,834**

Bank

	December 31, 2018	December 31, 2017
Cash in hand	2,236,018	1,924,188
Sight deposit with NBR	-	2,000,125
Current accounts and deposits with banks	3,137,479	2,280,488
Total	**5,373,497**	**6,204,801**

Impairment and provisions adjustment for non-cash items:

	Group		Bank	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Net impairment allowance for loans	(112,418)	20,958	(119,526)	(753)
Net impairment allowance for sundry debtors	42,876	34,999	45,077	37,015
Net impairment allowance for finance lease	(2,311)	2,348	-	-
Write-offs & sales of bad debts	68,175	(59,600)	54,200	(55,515)
Financial guarantee and loan contracts	48,751	(31,371)	48,918	(31,371)
Net movement in other provisions	(40,677)	59,984	(40,337)	60,983
Net impairment allowance for debt securities	(2,759)	-	(2,759)	
Total	**1,636**	**27,319**	**(14,428)**	**10,360**

(Amounts in thousands RON)

8. Due from Central Bank

	Group		Bank	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Current accounts	3,785,491	3,757,953	3,785,491	3,757,953
Deposits	-	2,000,000	-	2,000,000
Total	**3,785,491**	**5,757,953**	**3,785,491**	**5,757,953**

9. Due from banks

	Group		Bank	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Deposits at Romanian banks	6,916	106,598	6,916	106,598
Deposits at foreign banks	2,991,057	1,892,604	2,972,634	1,873,568
Current accounts at Romanian banks	46	9	40	-
Current accounts at foreign banks	318,325	506,663	318,325	506,663
Reverse repo	-	43,638	-	43,638
Total	**3,316,344**	**2,549,512**	**3,297,915**	**2,530,467**

Reverse repo transactions with banks, previously classified in IAS 39 in "due from banks" and measured at amortised cost were reclassified and included in line "derivative and other financial assets held for trading" starting 2018. Please refer to note 4, ref. B.

The Due from banks portfolio is classified as Stage 1. The Group and Bank registered an impairment allowance of 87 as at December 31, 2018 for Due from banks. In 2018 the Due from banks portfolio registered an overall net increase of 767 million for Group and 768 million for Bank as compared with December 31, 2017. The variation comes from: an increase of 1,018 million in deposits, 119 million decrease in nostro accounts, 18 million decrease in deposit with Societe Generale Paris, 71 million decrease in amounts to be recovered and 44 million reclassification of reverse repo according to IFRS 9.

10. Derivative and other financial instruments held for trading

Group

	December 31, 2018		
	Assets	Liabilities	Notional (total)
Interest rate swaps	94,603	39,294	3,597,364
Currency swaps	13,008	5,315	3,373,255
Forward foreign exchange contracts	2,772	13,246	1,705,429
Options	45,877	47,106	4,835,670
Total derivative financial instruments	**156,260**	**104,960**	**13,511,718**
Treasury notes/Short selling	780,679	107,432	873,633
Trading deposits		128,669	-
Reverse repo	1,315,524	-	1,288,033
Total	**2,252,463**	**341,061**	**15,673,383**

	December 31, 2017		
	Assets	Liabilities	Notional (total)
Interest rate swaps	78,837	41,127	2,459,989
Currency swaps	8,452	26,543	4,158,804
Forward foreign exchange contracts	20,805	3,404	1,872,710
Options	46,190	46,267	4,133,047
Total derivative financial instruments	**154,284**	**117,341**	**12,624,550**
Treasury notes/Short selling	483,402	20,703	481,217
Total	**637,686**	**138,044**	**13,105,767**

(Amounts in thousands RON)

10. Derivative and other financial instruments held for trading (continued)

Bank

	December 31, 2018		
	Assets	**Liabilities**	**Notional (total)**
Interest rate swaps	94,603	39,294	3,597,364
Currency swaps	13,008	5,315	3,373,255
Forward foreign exchange contracts	2,829	13,246	1,728,748
Options	45,877	47,106	4,835,670
Total derivative financial instruments	**156,316**	**104,960**	**13,535,037**
Treasury notes/Short selling	780,679	107,432	873,633
Trading deposits		128,669	-
Reverse repo	1,315,524	-	1,288,033
Total	**2,252,519**	**341,061**	**15,696,702**

	December 31, 2017		
	Assets	**Liabilities**	**Notional (total)**
Interest rate swaps	78,837	41,127	2,459,989
Currency swaps	8,455	26,543	4,160,809
Forward foreign exchange contracts	20,805	3,404	1,872,710
Options	46,190	46,267	4,133,047
Total derivative financial instruments	**154,287**	**117,341**	**12,626,555**
Treasury notes/Short selling	483,402	20,703	481,217
Total	**637,689**	**138,044**	**13,107,772**

The fair value of financial assets acquired under Reverse repo transactions is 1,312,387 as at December 31, 2018 and 1,162,758 as at December 31, 2017.

The Group continue to apply hedge accounting (fair value hedge) as at December 31, 2018 and has 3 hedging relationships (1 hedging relationship as at December 31, 2017) .

- On September 30, 2013, the Bank initiated a macro fair value hedge of interest rate risk associated with the current accounts, using several interest rate swaps (pay variable, receive fixed). The change in the fair value of the macro fair value hedge swaps offsets the change in the fair value of the hedged portion of the current accounts. The hedged item is represented by the portion of the current accounts portfolio equal to the swaps nominal of 62.5 million EUR with a fixed interest rate of 1.058%. The remaining period for the hedging instrument is of 2.2 years.

- On June 30, 2018, the Bank initiated two macro fair value hedges one in EUR and one in USD of interest rate risk associated with the current accounts, using several interest rate swaps (pay variable, receive fixed). The change in the fair value of the macro fair value hedge swaps offsets the change in the fair value of the hedged portion of the current accounts. The hedged items are represented by the portion of the current accounts portfolio equal to the swaps nominal values of:

  - 180 million EUR yearly with a fixed interest rate of 0.42%, the remaining period of 9.5 years.
  - 80 million EUR yearly with a fixed interest rate of -0.0125%, the remaining period of 4.5 years.
  - 70 million EUR yearly with a fixed interest rate of 0.171%, the remaining period of 6.5 years.
  - 70 million EUR yearly with a fixed interest rate of -0.0125%; the remaining period of 4.5 years.
  - 40 million USD yearly with a fixed interest rate of 2.813%; he remaining period of 9.5 years.
  - 30 million USD yearly with a fixed interest rate of 2.765%; the remaining period of 4.5 years.

(Amounts in thousands RON)

10. Derivative and other financial instruments held for trading (continued)

All hedging relationships have quarterly settlement periods for both fixed and variable legs. The hedging relationships were effective throughout the reporting period.

Main source of hedge ineffectiveness that might be expected to affect the hedging relationships is the amortization model of current accounts. However, the amortization of the hedged item is based on a behavioral ALM model that is reviewed / back tested on a yearly basis. In order to avoid inefficiency generated by the underestimated amortization of the current accounts, maximum 70% of the current accounts portfolio per each time band is designated as hedged item.

As the theoretical derivative is built as to match the interest rate behavior of the current accounts, the hedged item, there are no other major sources of ineffectiveness identified to threaten the hedge accounting relationship.

As at 31 December 2018, the accumulated amount of fair value hedge adjustments on the current accounts hedged item are included in the carrying amount and presented in due to customer line in the statement of financial position and amounts to 10,781. The change in value of the hedged item during the period amounts to -767. During 2018, the difference between the hedging gains or losses of the hedging instrument and the hedged item recognized in profit or loss amounts -1,060.

The fair value of hedging instrument for Group and Bank was the following:

	December 31, 2018		
	Assets	**Liabilities**	**Notional (total)**
Interest rate swaps	7,870	-	2,442,206

	December 31, 2017		
	Assets	**Liabilities**	**Notional (total)**
Interest rate swaps	8,215	-	388,339

Forwards
Forward contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market.

Swaps
Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as an interest rate, foreign currency rate or equity index.

Interest rate swaps relate to contracts concluded by the Bank with other financial institutions in which the Bank either receives or pays a floating rate of interest in return for paying or receiving, respectively, a fixed rate of interest. The payment flows are usually netted against each other, with the difference being paid by one party to the other.

In a currency swap, the Bank pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross–settled.

10. Derivative and other financial instruments held for trading (continued)

Options
Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period. The Bank purchases and sells options in the over-the-counter markets.

Options purchased by the Bank provide the Bank with the opportunity to purchase (call options) or sell (put options) the underlying asset at an agreed-upon value either on or before the expiration of the option.

The Bank is exposed to credit risk on purchased options only to the extent of their carrying amount, which is their fair value. Options written by the Bank provide the purchaser the opportunity to purchase from or sell to the Bank the underlying asset at an agreed-upon value either on or before the expiration of the option. The options are kept in order to neutralize the customer deals.

Trading treasury notes are treasury discount notes and coupon bonds held for trading purposes. All the treasury notes in Bank’s portfolio are issued by the Romanian Government in RON, EUR and USD.

(Amounts in thousands RON)

11. Loans and advances to customers

	Group		Bank	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Loans, gross	31,576,437	32,088,555	30,768,470	31,418,550
Loans impairment	(1,973,161)	(2,480,133)	(1,875,127)	(2,406,625)
Total	**29,603,276**	**29,608,422**	**28,893,343**	**29,011,925**

Reverse repo transactions in total amount of 1.139.203, were classified as a December 31, 2017 according to IAS 39 in „Loans and advances to customers" and measured at amortised cost and were included in all comparative disclosures presented below. Starting January 1, 2018 the amounts were reclasiffied into line „ Derivatives and other finanicial instruments held for trading". Please refer to note 4).

The structure of loans is the following:

	Group		Bank	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Working capital loans	3,988,989	4,763,825	3,988,989	4,763,825
Loans for equipment	2,758,169	3,776,208	2,583,418	3,671,831
Trade activities financing	1,124,650	718,741	1,124,650	718,741
Acquisition of real estate, including mortgage for individuals	12,413,066	11,683,546	12,413,066	11,683,546
Consumer loans	9,332,902	8,690,507	8,699,685	8,124,879
Reverse Repo	-	1,139,203	-	1,139,203
Other	1,958,662	1,316,525	1,958,662	1,316,525
Total	**31,576,437**	**32,088,555**	**30,768,470**	**31,418,550**

In 2018 the gross loan portfolio remained stable with an overall net increase of 303 million as compared with January 1st, 2018.

As at 31 December 2018 the Bank's gross loan portfolio and movements were distributed as follows:

- Stage 1: 21,770 million, with a 1,703 million increase compared to January 1st, 2018
- Stage 2: 7,274 million, with a 380 million decrease compared to January 1st, 2018
- Stage 3: 1,645 million, with a 1,024 million decrease compared to January 1st, 2018
- POCI: 79 million, with a 4 million increase compared to January 1st, 2018

The main movements on Gross exposure and ECL are explained by the Bank's continuous efforts to improve the quality of the loan portfolio and proactive actions to enhance the recoveries of non-performing exposures.
The impact from the written off portfolio (decrease in Stage 3) was offset by granting new assets of an improved credit quality (increase in Stage 1).

As of December 31, 2018 the amortized cost of loans granted to the 20 largest corporate clients (groups of connected borrowers) amounts to 2,685,093 (December 31, 2017: 2,271,528), while the value of letters of guarantee and letters of credit issued in favour of these clients amounts for the Group and Bank to 3,691,400 (December 31, 2017: 4,523,077).

(Amounts in thousands RON)

11. Loans and advances to customers (continued)

Impairment allowance movement

Group

	Retail lending				
	Stage 1	Stage 2	Stage 3	POCI	**Total**
Impairment allowance as at 1 st January 2018 (under IFRS 9)	169,120	297,729	780,822	3,271	**1,250,941**
New assets originated or purchased	17,557	38,972	38,017	229	**94,776**
Assets derecognised or repaid (excluding write offs)	(7,553)	(25,167)	(95,080)	-	**(127,799)**
Net provision movement for assets that did not change classification	(15,046)	(24,100)	(27,373)	12	**(66,507)**
Movements due to change in classification	(2,620)	(10,517)	122,016	135	**109,014**
Amounts written off	(1)	(63)	(138,374)	-	**(138,437)**
Foreign exchange adjustments	15	126	223	2	**367**
Impairment allowance as at 31 December 2018	**161,473**	**276,981**	**680,251**	**3,648**	**1,122,354**

	Non-Retail lending				
	Stage 1	Stage 2	Stage 3	POCI	**Total**
Impairment allowance as at 1 st January 2018 (under IFRS 9)	67,794	215,840	1,316,850	29,646	**1,630,130**
New assets originated or purchased	27,078	25,626	4,698	20	**57,422**
Assets derecognised or repaid (excluding write offs)	(22,734)	(77,346)	(182,297)	-	**(282,376)**
Net provision movement for assets that did not change classification	9,835	(41,297)	(12,857)	12,288	**(32,031)**
Movements due to change in classification	(1,095)	(7,209)	40,671	-	**32,367**
Amounts written off	-	-	(554,090)	-	**(554,090)**
Foreign exchange adjustments	(559)	(146)	39	52	**(614)**
Impairment allowance as at 31 December 2018	**80,320**	**115,466**	**613,015**	**42,006**	**850,807**

	Total				
	Stage 1	Stage 2	Stage 3	POCI	**Total**
Impairment allowance as at 1 st January 2018 (under IFRS 9)	236,914	513,569	2,097,672	32,917	**2,881,071**
New assets originated or purchased	44,636	64,598	42,715	249	**152,198**
Assets derecognised or repaid (excluding write offs)	(30,286)	(102,513)	(277,376)	-	**(410,175)**
Net provision movement for assets that did not change classification	(5,211)	(65,397)	(40,229)	12,299	**(98,538)**
Movements due to change in classification	(3,715)	(17,727)	162,687	135	**141,381**
Amounts written off	(1)	(63)	(692,464)	-	**(692,528)**
Foreign exchange adjustments	(544)	(20)	262	54	**(248)**
Impairment allowance as at 31 December 2018	**241,793**	**392,448**	**1,293,266**	**45,653**	**1,973,161**

(Amounts in thousands RON)

11. Loans and advances to customers (continued)

Impairment allowance movement (continued)

Bank

	Retail lending				
	Stage 1	Stage 2	Stage 3	POCI	**Total**
Impairment allowance as at 1 st January 2018 (under IFRS 9)	149,614	290,109	713,061	3,271	**1,156,055**
New assets originated or purchased	16,123	35,746	21,306	229	**73,404**
Assets derecognised or repaid (excluding write offs)	(7,502)	(25,152)	(95,080)	-	**(127,734)**
Net provision movement for assets that did not change classification	(12,848)	(22,298)	(27,476)	12	**(62,611)**
Movements due to change in classification	(2,587)	(10,507)	122,016	135	**109,057**
Amounts written off	(1)	(63)	(120,544)	-	**(120,608)**
Foreign exchange adjustments	3	105	223	2	**333**
Impairment allowance as at 31 December 2018	**142,803**	**267,941**	**613,505**	**3,648**	**1,027,898**

	Non-Retail lending				
	Stage 1	Stage 2	Stage 3	POCI	**Total**
Impairment allowance as at 1 st January 2018 (under IFRS 9)	67,335	214,659	1,316,100	29,646	**1,627,739**
New assets originated or purchased	26,701	24,879	4,698	20	**56,298**
Assets derecognised or repaid (excluding write offs)	(22,582)	(76,963)	(182,240)	-	**(281,784)**
Net provision movement for assets that did not change classification	9,825	(42,104)	(13,031)	12,288	**(33,022)**
Movements due to change in classification	(1,010)	(7,182)	40,671	-	**32,480**
Amounts written off	-	-	(554,090)	-	**(554,090)**
Foreign exchange adjustments	(530)	46	42	52	**(390)**
Impairment allowance as at 31 December 2018	**79,739**	**113,335**	**612,150**	**42,006**	**847,230**

	Total				
	Stage 1	Stage 2	Stage 3	POCI	**Total**
Impairment allowance as at 1 st January 2018 (under IFRS 9)	216,949	504,768	2,029,161	32,917	**2,783,795**
New assets originated or purchased	42,825	60,624	26,004	249	**129,702**
Assets derecognised or repaid (excluding write offs)	(30,084)	(102,115)	(277,319)	-	**(409,518)**
Net provision movement for assets that did not change classification	(3,023)	(64,402)	(40,508)	12,299	**(95,633)**
Movements due to change in classification	(3,596)	(17,689)	162,687	135	**141,537**
Amounts written off	(1)	(63)	(674,635)	-	**(674,698)**
Foreign exchange adjustments	(527)	151	265	54	**(57)**
Impairment allowance as at 31 December 2018	**222,543**	**381,276**	**1,225,655**	**45,653**	**1,875,127**

(Amounts in thousands RON)

12. Finance lease receivables

The Group acts as a lessor through the subsidiary BRD Sogelease IFN SA, having in the portfolio vehicles, equipment (industrial, agricultural) and real estate leases. The leases are denominated mainly in EUR and RON, with transfer of ownership of the leased asset at the end of the lease term. The receivables are secured by the underlying assets and by other collateral. The payment timing analysis of lease receivables is as follows:

	Group	
	December 31, 2018	**December 31, 2017**
Gross investment in finance lease:		
Under 1 year	347,883	323,877
Between 1 and 5 years	549,352	543,098
Higher than 5 years	3,194	16,333
	900,429	**883,308**
Unearned finance income	(62,180)	(61,949)
Net investment in finance lease	**838,249**	**821,359**
Net investment in finance lease:		
Under 1 year	318,277	295,727
Between 1 and 5 years	516,955	510,108
Higher than 5 years	3,016	15,524
	838,249	**821,359**

	December 31, 2018	December 31, 2017
Net investment in the lease	838,249	821,359
Accumulated allowance for uncollectible minimum lease payments receivable	(77,237)	(93,591)
Total	**761,012**	**727,768**

(Amounts in thousands RON)

12. Finance lease receivables (continued)

	Retail			
	Stage 1	Stage 2	Stage 3	**Total**
Impairment allowance as at 1 st January 2018 (under IFRS 9)	570	1,068	21,524	**23,162**
New assets originated or purchased	317	325	235	**877**
Assets derecognised or fully repaid (excluding write offs)	(244)	(132)	(1,117)	**(1,492)**
Changes due to change in credit risk (net)	-	-	831	**831**
Changes due to update in the institution's methodology for estimation (net)	(115)	(172)	-	**(286)**
Amounts written off	-	-	(5,528)	**(5,528)**
Foreign exchange adjustments	31	43	-	**74**
				-
Impairment allowance as at 31 December 2018	**560**	**1,133**	**15,945**	**17,637**

	Non-retail			
	Stage 1	Stage 2	Stage 3	**Total**
Impairment allowance as at 1 st January 2018 (under IFRS 9)	3,020	13,943	61,776	**78,740**
New assets originated or purchased	1,241	5,559	1,268	**8,068**
Assets derecognised or fully repaid (excluding write offs)	(1,227)	(5,029)	(18,452)	**(24,708)**
Changes due to change in credit risk (net)	137	291	3,634	**4,062**
Changes due to update in the institution's methodology for estimation (net)	(655)	(441)	-	**(1,096)**
Amounts written off	-	(17)	(5,575)	**(5,592)**
Foreign exchange adjustments	79	112	(66)	**124**
				-
Impairment allowance as at 31 December 2018	**2,595**	**14,418**	**42,585**	**59,598**

	Total			
	Stage 1	Stage 2	Stage 3	**Total**
Impairment allowance as at 1 st January 2018 (under IFRS 9)	3,591	15,011	83,300	**101,902**
New assets originated or purchased	1,557	5,884	1,504	**8,945**
Assets derecognised or fully repaid (excluding write offs)	(1,471)	(5,160)	(19,569)	**(26,200)**
Changes due to change in credit risk (net)	137	291	4,464	**4,892**
Changes due to update in the institution's methodology for estimation (net)	(769)	(613)	-	**(1,382)**
Amounts written off	-	(17)	(11,103)	**(11,120)**
Foreign exchange adjustments	110	155	(66)	**198**
Impairment allowance as at 31 December 2018	**3,155**	**15,550**	**58,530**	**77,235**

As at December 31, 2018 and December 31, 2017, the future minimum lease receipts regarding operating leases (rents) concluded by the Group and Bank as a lessor are:

	Group		**Bank**	
	December 31, 2018	**December 31, 2017**	**December 31, 2018**	**December 31, 2017**
Less than one year	1,437	1,444	1,437	1,444
Between one and five years	4,797	4,441	4,797	4,441
More than five years	3,041	4,156	3,041	4,156
Total	**9,275**	**10,041**	**9,275**	**10,041**

(Amounts in thousands RON)

13. Financial assets at fair value through profit or loss

As at 1 January 2018, the Bank has reclassified the available for sale portfolio consisting of equity instruments to the category of financial assets at fair value through profit and loss category, in accordance with IFRS 9. The equity instruments available for sale reserve in amount of 25.1 RON million was reclassified to retained earnings as shown in Note 4, ref F.

Details on the equity portfolio instruments is presented below:

	Group		Bank	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Equity investments	47,363	35,459	47,363	35,459
Other securities	35,113	63,342	15,235	41,661
Total	**82,476**	**98,802**	**62,598**	**77,121**

Equity investments

Other equity investments represent shares in Romanian Commodities Exchange, Bucharest Clearing House (the former Romanian Securities Clearing and Depository Company), Depozitarul Central S.A. (Shareholders' Register for the National Securities Commission), Fondul Roman de Garantare a Creditelor pentru Intreprinzatorii Privati SA, Romanian Clearing House (SC Casa Romana de Compensatie SA), Investor Compensating Fund (Fondul de Compensare a Investitorilor), TransFond, Bucharest Stock Exchange, Visa Inc, SWIFT.

Other securities

The Group holds fund units in:

December 31, 2018	Unit value RON	No of units	Market value
BRD Simfonia	41	392,962	16,176
BRD Obligatiuni	168	21,980	3,701
BRD Diverso	170	37,578	6,403
BRD Actiuni	177	44,358	7,857
BRD Index	150	6,514	976
Total			**35,113**

December 31, 2017	Unit value RON	No of units	Market value
BRD Simfonia	40	450,681	18,068
BRD Obligatiuni	164	21,980	3,613
BRD Diverso	171	127,578	21,872
BRD Actiuni	183	93,548	17,123
BRD Index	161	16,594	2,666
Total			**63,342**

(Amounts in thousands RON)

13. Financial assets at fair value through profit or loss (continued)

The Bank holds fund units in:

December 31, 2018	Unit value RON	No of units	Market value
BRD Diverso	170	37,578	6,402
BRD Actiuni	177	44,358	7,857
BRD Index	150	6,514	976
Total			**15,235**

December 31, 2017	Unit value RON	No of units	Market value
BRD Diverso	171	127,578	21,872
BRD Actiuni	183	93,548	17,123
BRD Index	161	16,594	2,666
Total			**41,661**

14. Financial assets at fair value through other comprehensive income

As at 1 January 2018, the Bank has reclassified the available for sale portfolio of treasury bills to the IFRS 9 category financial assets at fair value through other comprehensive income (Note 4, line G).

Treasury notes

Treasury notes consist of treasury discount notes and coupon bonds issued by the Ministry of Public Finance, rated as BBB- by Standard&Poors. According to IFRS9 these financial assets at fair value through other comprehensive income are classified as Stage 1 and ECL impairment allowance amounts to 3,713 as of 31 December 2018.

(Amounts in thousands RON)

15. Investments in subsidiaries and associates

Group

Associates	%	December 31, 2017	Additions/ Reclassifications	Increase / (decrease) in net assets	December 31, 2018
BRD Asigurari de Viata SA	49.00%	35,219		(4,336)	30,881
BRD Fond de Pensii S.A.	49.00%	9,602		(319)	9,283
Fondul de Garantare a Creditului Rural	33.33%	17,379		2,649	20,027
Mobiasbanca Groupe Societe Generale S.A.	20.00%	69,047	(78,517)	9,470	-
ALD Automotive	20.00%	15,985		5,426	21,411
BRD Sogelease Asset Rental SRL	20.00%	1,097		(1,097)	(0)
Biroul de Credit S.A.	16.38%	3,531		(214)	3,317
		151,859	**(78,517)**	**11,578**	**84,919**

Group

Associates	%	December 31, 2016	Additions/ Reclassifications	Increase / (decrease) in net assets	December 31, 2017
BRD Asigurari de Viata SA	49.00%	30,737		4,482	35,219
BRD Fond de Pensii S.A.	49.00%	8,236		1,366	9,602
Fondul de Garantare a Creditului Rural	33.33%	16,670		709	17,379
Mobiasbanca Groupe Societe Generale S.A.	20.00%	56,793		12,254	69,047
ALD Automotive	20.00%	16,379		(394)	15,985
BRD Sogelease Asset Rental SRL	20.00%	1,766		(669)	1,097
Biroul de Credit S.A.	16.38%	3,491		40	3,531
		134,072		**17,788**	**151,859**

(Amounts in thousands RON)

15. Investments in subsidiaries and associates (continued)

Bank

	%	December 31, 2017	Additions/ Reclassifications	December 31, 2018
BRD Asigurari de Viata SA	49.00%	17,697		17,697
BRD Fond de Pensii S.A.	49.00%	16,160		16,160
Fondul de Garantare a Creditului Rural	33.33%	14,220		14,220
Mobiasbanca Groupe Societe Generale S.A.	20.00%	29,017	(29,017)	-
ALD Automotive	20.00%	11,873		11,873
Biroul de Credit S.A.	16.38%	729		729
Associates		**89,696**	**(29,017)**	**60,679**
BRD Sogelease IFN SA	99.98%	11,558		11,558
BRD Asset Management SAI SA	99.98%	4,321		4,321
BRD Finance Credite de Consum IFN SA	49.00%	53,019		53,019
Subsidiaries		**68,898**	**-**	**68,898**
Total associates and subsidiaries		**158,594**	**(29,017)**	**129,577**

(Amounts in thousands RON)

15. Investments in subsidiaries and associates (continued)

Bank

	%	December 31, 2016	Additions/ Reclassifications	December 31, 2017
BRD Asigurari de Viata SA	49.00%	17,697	-	17,697
BRD Fond de Pensii S.A.	49.00%	16,160	1,470	16,160
Fondul de Garantare a Creditului Rural	33.33%	14,220	-	14,220
Mobiasbanca Groupe Societe Generale S.A.	20.00%	29,017	-	29,017
ALD Automotive	20.00%	11,873	-	11,873
Biroul de Credit S.A.	16.38%	729	-	729
Associates		**89,696**	**1,470**	**89,696**
BRD Corporate Finance SRL	100.00%	403	-	-
BRD Sogelease IFN SA	99.98%	11,558	-	11,558
BRD Asset Management SAI SA	99.98%	4,321	-	4,321
BRD Finance Credite de Consum IFN SA	49.00%	53,019	-	53,019
Subsdiaries		**69,301**	**-**	**68,898**
Total associates and subsidiaries		**158,997**	**1,470**	**158,594**

(Amounts in thousands RON)

15. Investments in subsidiaries and associates (continued)

The subsidiaries and associate summary of financial position and income statement as at December 31, 2018 are as follows**:**

December 31, 2018	%	Current assets	Non-current assets	Net assets	% of net assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities	Revenue	Net profit/(loss)
Subsidiaries											
BRD Sogelease IFN SA	99.98%	474,519	654,951	217,447	n/a	1,129,470	322,278	589,744	912,022	118,492	27,573
BRD Finance Credite de Consum IFN SA	49.00%	167,841	476,482	92,549	n/a	644,323	299,171	252,603	551,774	118,791	14,509
BRD Asset Management SAI SA	99.98%	1,653	21,837	21,406	n/a	23,490	393	1,691	2,084	9,171	2,995
Associate											
ALD Automotive	20.00%	57,994	526,482	107,056	21,406	584,476	41,182	436,237	477,419	173,526	9,628
* Mobiasbanca Groupe Societe Generale S.A.	20.00%	1,300,135	1,332,978	392,592	78,516	2,633,113	31,096	2,209,424	2,240,521	222,275	71,939
BRD Asigurari de Viata SA	49.00%	271,127	56,726	63,028	30,883	327,853	116,752	148,073	264,825	179,073	17,701
Fondul de Garantare a Creditului Rural	33.33%	745,368	8,366	60,082	20,030	753,734	52,097	641,554	693,651	27,405	12,177
Biroul de Credit S.A.	16.38%	16,795	3,833	20,266	3,317	20,627	361	-	361	12,990	5,610
BRD Fond de Pensii S.A.	49.00%	24,222	6,353	18,944	9,283	30,575	1,229	10,403	11,632	20,186	(134)
BRD Sogelease Asset Rental SRL	20.00%	10,899	91,915	(3,996)	-	102,814	52,775	54,036	106,811	18,189	(3,693)
Total					**163,435**						

* BRD Group decided to sell its equity stake in Mobiasbanca and the completion of the transaction is expected during 2019.

Consequently, as of December 2018 the Group and the Bank reclassified the participation from "Investments in associates and subsidiaries" into "Non-current assets held for sale".

The carrying amount in the Bank separate statement of financial position is 29,017, representing the historical cost of the investment while in the Group statement it amounts 72,290, representing the fair value. At reclassification date, a fair value adjustment of (6,227) was recognised in the profit and loss.

(Amounts in thousands RON)

15. Investments in subsidiaries and associates (continued)

The subsidiaries and associate summary of financial position and income statement as at December 31, 2017 are as follows:

December 31, 2017	%	Current assets	Non-current assets	Net assets	% of net assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities	Revenue	Net profit/(loss)
Subsidiare											
BRD Sogelease IFN SA	99.98%	132,150	944,556	218,252	n/a	1,076,706	57,170	801,284	858,454	45,002	23,474
BRD Finance Credite de Consum IFN SA	49.00%	601,266	2,319	105,919	n/a	603,585	97,806	399,860	497,666	96,753	16,106
BRD Asset Management SAI SA	99.98%	25,978	419	24,028	n/a	26,397	2,369	-	2,369	11,654	5,727
Asociat											
ALD Automotive	20.00%	43,980	440,277	79,924	15,985	484,257	34,365	369,968	404,333	259,038	10,388
Mobiasbanca Groupe Societe Generale S.A.	20.00%	1,120,974	1,186,914	345,243	69,047	2,307,888	22,806	1,939,839	1,962,645	254,367	59,348
BRD Asigurari de Viata SA	49.00%	214,485	62,847	71,877	35,219	277,332	112,419	93,036	205,455	134,721	25,949
Fondul de Garantare a Creditului Rural	33.33%	718,411	9,507	52,130	17,379	727,918	59,825	615,963	675,788	20,345	5,408
Biroul de Credit S.A.	16.38%	12,993	8,922	21,574	3,531	21,915	341	-	341	13,515	6,917
BRD Fond de Pensii S.A.	49.00%	6,583	18,809	19,594	9,602	25,392	5,798	-	5,798	16,237	3,157
BRD Sogelease Asset Rental SRL	20.00%	19,180	111,367	5,485	1,097	130,547	3,981	121,081	125,062	33,923	(8,122)
Total					151,860						

(Amounts in thousands RON)

16. Property, plant and equipment

Group

	Land & Buildings	Investment properties	Office equipments	Materials and other assets	Construction in progress	Total
Cost:						
as of December 31, 2016	**1,328,020**	**29,281**	**238,153**	**527,855**	**35,473**	**2,158,782**
Additions	802	-	1,504	4,055	91,110	97,471
Transfers	10,102	(15)	21,616	45,835	(77,538)	-
Disposals	(16,882)	(27)	(20,362)	(24,194)	6,274	(55,191)
as of December 31, 2017	**1,322,042**	**29,239**	**240,911**	**553,551**	**55,319**	**2,201,062**
Additions	641	-	993	349	69,271	71,254
Transfers	12,356	7,912	37,834	28,560	(80,343)	6,319
Disposals	(11,196)	-	(33,776)	(34,262)	(65)	(79,299)
as of December 31, 2018	**1,323,843**	**37,151**	**245,962**	**548,198**	**44,182**	**2,199,336**
Depreciation and impairment:						
as of December 31, 2016	**(683,145)**	**(15,339)**	**(185,439)**	**(427,333)**	**-**	**(1,311,256)**
Depreciation	(43,212)	(1,388)	(23,135)	(25,407)	-	(93,142)
Impairment	(8,074)	-	-	(2,559)	-	(10,633)
Disposals	16,113	29	20,683	22,608	-	59,433
as of December 31, 2017	**(718,318)**	**(16,698)**	**(187,891)**	**(432,691)**	**-**	**(1,355,598)**
Depreciation	(40,978)	(1,381)	(26,777)	(29,526)	-	(98,662)
Impairment	711	-	-	813	-	1,524
Disposals	9,730	-	33,934	30,589	-	74,253
Transfers	1,460	-	-	(1,460)	-	-
as of December 31, 2018	**(747,395)**	**(18,080)**	**(180,734)**	**(432,276)**	**-**	**(1,378,483)**
Net book value:						
as of December 31, 2016	**644,875**	**13,942**	**52,714**	**100,522**	**35,473**	**847,526**
as of December 31, 2017	**603,724**	**12,541**	**53,020**	**120,860**	**55,319**	**845,464**
as of December 31, 2018	**576,448**	**19,071**	**65,228**	**115,922**	**44,182**	**820,853**

(Amounts in thousands RON)

16. Property, plant and equipment (continued)

Bank

	Land & Buildings	Investment properties	Office equipments	Materials and other assets	Construction in progress	Total
Cost:						
as of December 31, 2016	**1,317,919**	**29,285**	**227,302**	**527,103**	**35,473**	**2,137,082**
Additions	802	-	1,465	4,055	91,110	97,432
Transfers	10,103	(15)	21,616	45,835	(77,539)	-
Disposals	(16,882)	(27)	(20,134)	(24,044)	6,274	(54,813)
as of December 31, 2017	**1,311,942**	**29,243**	**230,249**	**552,949**	**55,318**	**2,179,701**
Additions	641	-	-	349	69,271	70,262
Transfers	12,356	7,908	37,834	28,558	(80,343)	6,314
Disposals	(11,117)	-	(33,755)	(34,121)	(65)	(79,058)
as of December 31, 2018	**1,313,822**	**37,151**	**234,328**	**547,736**	**44,182**	**2,177,218**
Depreciation and impairment:						
as of December 31, 2016	**(678,889)**	**(15,339)**	**(176,718)**	**(426,797)**	**-**	**(1,297,743)**
Depreciation	(42,971)	(1,390)	(22,276)	(25,333)	-	(91,972)
Impairment	(8,074)	-	-	(2,559)	-	(10,633)
Disposals	16,113	29	20,169	22,525	-	58,836
as of December 31, 2017	**(713,821)**	**(16,700)**	**(178,825)**	**(432,164)**	**-**	**(1,341,512)**
Depreciation	(40,742)	(1,380)	(26,005)	(29,528)	-	(97,655)
Impairment	711	-	-	813	-	1,524
Disposals	9,730	-	33,754	30,594	-	74,078
Transfers	1,460	-	-	(1,460)	-	-
as of December 31, 2018	**(742,661)**	**(18,080)**	**(171,076)**	**(431,745)**	**-**	**(1,363,562)**
Net book value:						
as of December 31, 2016	**639,030**	**13,946**	**50,584**	**100,306**	**35,473**	**839,339**
as of December 31, 2017	**598,121**	**12,543**	**51,424**	**120,785**	**55,318**	**838,189**
as of December 31, 2018	**571,161**	**19,071**	**63,252**	**115,991**	**44,182**	**813,656**

The Group and Bank holds investment property as a consequence of the ongoing rationalisation of its retail branch network. Investment properties comprise a number of commercial properties that are leased to third parties. The investment properties have a fair value of 21,349 as at December 31, 2018 (December 31, 2017: 16,014). The fair value has been determined based on a valuation by an independent valuer in 2018. Rental income from investment property of 1,849 (2017: 1,888) has been recognised in other income.

(Amounts in thousands RON)

17. Goodwill

Goodwill represents the excess of the acquisition cost over the fair value of net identifiable assets transferred from Société Générale Bucharest to the Group in 1999.

Following the acquisition, the branch become the present Sucursala Mari Clienti Corporativi ("SMCC") – the branch dedicated to large significant clients, most of them taken over from the former Societe Generale Bucharest.

As at December 31, 2018, the branch had a number of 3,518 active customers (2017: 3,801), with loans representing approximately 11% from total loans managed by the network (2017: 14%) and with deposits representing about 15% of networks' deposits (2017: 17%).

Most of the SMCC non-retail clients are large multinational and national customers.

Taking into account the stable base of clients and the contribution to the bank's net banking income, the branch which generated the goodwill is considered profitable, without any need of impairment.

18. Intangible assets

The balance of the intangible assets as of December 31, 2018 and December 31, 2017 represents mainly software.

	Group	Bank
Cost:		
as of December 31, 2016	**406,899**	**376,719**
Additions	51,020	50,289
Disposals	(234)	(233)
as of December 31, 2017	**457,685**	**426,775**
Additions	76,794	76,000
Disposals	(2,115)	(2,037)
as of December 31, 2018	**532,364**	**500,738**
Amortization:		
as of December 31, 2016	**(316,649)**	**(290,649)**
Amortization expense	(34,633)	(32,838)
Disposals	5	(25)
as of December 31, 2017	**(351,277)**	**(323,512)**
Amortization expense	(38,269)	(36,634)
as of December 31, 2018	**(389,546)**	**(360,146)**
Net book value:		
as of December 31, 2016	**90,250**	**86,070**
as of December 31, 2017	**106,408**	**103,263**
as of December 31, 2018	**142,818**	**140,592**

(Amounts in thousands RON)

19. Other assets

	Group		Bank	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Advances to suppliers	84,419	50,508	-	-
Sundry receivable	189,424	221,514	176,670	212,579
Prepaid expenses	33,222	20,138	29,069	16,969
Repossessed assets	10,918	19,471	9,521	18,113
Other assets	9,915	8,436	5,973	7,687
Total	**327,898**	**320,067**	**221,233**	**255,348**

The sundry receivables balances includes various commissions, sundry debtors, dividends and are net of impairment allowance, which at Group level is 165,891 (December 31, 2017: 112,920) and at Bank level is 155,095 (December 31, 2017: 99,872). In addition, sundry receivable include an amount of 43,108 (December 31, 2017: 43,108) paid to the fiscal authorities following a tax inspection carried out in 2016; the amount is under litigation with the authorities and the Bank estimates that is more likely than not that it will win the litigation.

As of December 31, 2018 the carrying value of repossessed assets for Group is 10,918 (December 31, 2017: 19,471). As of December 31, 2018 the carrying value of repossessed assets for Bank is 9,521 (December 31, 2017: 18,113), representing three residential buildings (December 31, 2017: five residential buildings).

Group

Sundry receivables	**Total (Stage3)**
Impairment allowance as at 1 st January 2018 (under IFRS 9)	124,714
Additional expenses	68,544
Reversals of provisions	(25,668)
Receivables written off	(1,688)
Foreign exchange adjustments	(11)
Impairment allowance as at 31 December 2018	**165,891**

	Total
Impairment allowance as at 31 December 2016	80,208
Additional expenses	50,128
Reversals of provisions	(15,129)
Receivables written off	(2,233)
Foreign exchange adjustments	(53)
Impairment allowance as at 31 December 2017	**112,921**

(Amounts in thousands RON)

19. Other assets (continued)

Bank

Sundry receivables	**Total (Stage3)**
Impairment allowance as at 1 st January 2018 (under IFRS 9)	111,666
Additional expenses	67,437
Reversals of provisions	(22,360)
Receivables written off	(1,688)
Foreign exchange adjustments	40
Impairment allowance as at 31 December 2018	**155,095**

	Total
Impairment allowance as at 31 December 2016	64,976
Additional expenses	50,006
Reversals of provisions	(12,991)
Receivables written off	(2,233)
Foreign exchange adjustments	115
Impairment allowance as at 31 December 2017	**99,873**

20. Due to banks

	Group		Bank	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Demand deposits	227,819	767,725	227,819	767,725
Term deposits	69,998	118,245	69,998	118,245
Due to banks	**297,817**	**885,970**	**297,817**	**885,970**

21. Due to customers

	Group		Bank	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Demand deposits	29,856,889	27,565,993	29,940,061	27,707,427
Term deposits	15,360,106	16,653,693	15,375,495	16,679,881
Due to customers	**45,216,995**	**44,219,686**	**45,315,556**	**44,387,308**

(Amounts in thousands RON)

22. Borrowed funds

	Group		Bank	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Borrowings from related parties	1,052,416	920,027	227	23,665
Borrowings from international financial institutions	254,140	332,203	16,273	24,640
Borrowings from other institutions	82	225	82	225
Total	**1,306,638**	**1,252,455**	**16,582**	**48,530**

Funds borrowed from related parties are senior unsecured and are used in the normal course of business.

23. Taxation

Current income tax is calculated based on the taxable income as per the tax statement derived from the stand alone accounts of each consolidated entity. As at December 31, 2018 the Group has a current tax liability in total amount of 2,305 (December 31, 2017: 103,581) and a current tax asset in amount of 10,312 (December 31, 2017: 0).
The deferred tax liability/asset is reconciled as follows:

	Group December 31, 2018				
	Temporary differences Asset / (Liability)	Consolidated Statement of Financial Position Asset / (Liability)	Consolidated Income Statement (Expense) / Income	Consolidated OCI (Expense) / Income	Impact IFRS 9 (see note 4)
Elements generating deferred tax					
Defined benefit obligation	27,630	(4,421)	-	(5,299)	-
Investments and other securities	(44,241)	7,079	(351)	13,745	4,589
Tangible and intangible assets	(128,764)	20,602	2,308	-	-
Provisions and other liabilities	(563,876)	90,219	4,874	-	(17,967)
Taxable items	**(709,251)**				
Deferred tax		**113,480**	**6,831**	**8,446**	**(13,377)**

(Amounts in thousands RON)

23. Taxation (continued)

	Bank December 31, 2018				
	Temporary differences Asset / (Liability)	**Individual Statement of Financial Position Asset / (Liability)**	**Individual Income Statement (Expense) / Income**	**Consolidated OCI (Expense) / Income**	**Impact IFRS 9 (see note 4)**
Elements generating deferred tax					
Defined benefit obligation	27,630	(4,421)	-	(5,299)	-
Investments and other securities	(35,994)	5,759	-	13,746	4,589
Tangible and intangible assets	(128,623)	20,580	2,151	-	
Provisions and other liabilities	(534,212)	85,474	4,831	-	(22,111)
Taxable items	**(671,199)**				
Deferred tax		**107,392**	**6,982**	**8,447**	**(17,521)**

	Group December 31, 2017			
	Temporary differences Asset / (Liability)	**Consolidated Statement of Financial Position Asset / (Liability)**	**Consolidated Income Statement (Expense) / Income**	**Consolidated OCI (Expense) / Income**
Elements generating deferred tax				
Defined benefit obligation	(5,487)	878	-	(44)
Investments and other securities	84,572	(13,531)	(245)	40,128
Tangible and intangible assets	(114,345)	18,294	3,130	-
Provisions and other liabilities	(662,123)	105,940	4,262	-
Taxable items	**(697,383)**			
Deferred tax		**111,581**	**7,147**	**40,084**

(Amounts in thousands RON)

23. Taxation (continued)

	Bank December 31, 2017			
	Temporary differences Asset / (Liability)	**Individual Statement of Financial Position Asset / (Liability)**	**Individual Income Statement (Expense) / Income**	**Consolidated OCI (Expense) / Income**
Elements generating deferred tax				
Defined benefit obligation	(5,487)	878	-	(44)
Investments and other securities	78,603	(12,577)	-	40,128
Tangible and intangible assets	(115,182)	18,429	2,989	-
Provisions and other liabilities	(642,210)	102,754	5,091	-
Taxable items	**(684,276)**			
Deferred tax		**109,484**	**8,080**	**40,084**

Movement in deferred tax is as follows:

	Group	Bank
Deferred tax asset, net as of December 31, 2016	**64,350**	**61,321**
Deferred tax recognized in other comprehensive income	40,084	40,084
Deferred tax recognized in profit and loss	7,147	8,080
Deferred tax asset, net as of December 31, 2017	**111,581**	**109,485**
Impact IFRS 9, recognized in OCI	(13,378)	(17,521)
Deferred tax recognized in other comprehensive income	8,446	8,446
Deferred tax recognized in profit and loss	6,831	6,982
Deferred tax asset, net as of December 31, 2018	**113,480**	**107,392**

Reconciliation of total tax charge

	Group		Bank	
	2018	**2017**	**2018**	**2017**
Profit before income tax	**1,856,005**	**1,672,173**	**1,827,553**	**1,629,618**
Income tax (16%)	296,961	267,548	292,408	260,739
Fiscal credit	(22,897)	(13,717)	(22,379)	(13,496)
Non-deductible elements	39,556	16,601	26,804	12,074
Non-taxable elements	(20,717)	(12,833)	(15,270)	(10,083)
Expense from income tax at effective tax rate	**292,903**	**257,599**	**281,564**	**249,234**
Effective tax rate	15.8%	15.4%	15.4%	15.3%

(Amounts in thousands RON)

23. Taxation (continued)

Recognition of deferred tax asset is based on the management's profit forecasts, which indicates that it is probable that future taxable profits will be available against which the deferred tax assets can be utilised. At the Bank level, as at December 31, 2018, permanent non-deductible elements include the impact of provisions for overdue commissions 8,749 (December 31, 2017: 7,848), sponsorship expenses with an impact of 1,674 (December 31, 2017: 1,214), and debt sales and other operations with limited deductibility in amount of 11,359 (December 31, 2017: 1,231); permanent non-taxable elements are mainly a result of releases for provisions for over-due commissions in amount of 2,138 (December 31, 2017: 1,942), provisions for litigations 1,636 (December 31, 2017: 736), and dividends income with an impact of 8,319 (December 31, 2017: 7,223).

24. Other liabilities

	Group		Bank	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Sundry creditors	314,337	243,712	204,957	168,797
Other payables to State budget	45,206	37,021	43,736	35,588
Deferred income	18,383	19,949	18,380	19,942
Payables to employees	135,739	158,212	128,019	151,224
Financial guarantee and loan commitments provisions	344,669	419,585	358,583	447,154
Other provisions	38,793	79,470	37,254	77,591
Total	**897,126**	**957,949**	**790,929**	**900,296**

Sundry creditors are expected to be settled in no more than twelve months after the reporting period.

Payables to employees include, among other, gross bonuses, amounting 60,080 as of December 31, 2018 (December 31, 2017: 55,842) and post-employment benefits amounting 49,281 as of December 31, 2018 (December 31, 2017: 78,480).

As at December 31, 2018 "Other provisions" includes mainly transformation cost provision, provisions for litigation and the provision for sale of a loan portfolio, as detailed below:

- Following the transformation process encompassed by the Bank in 2017 which envisaged an increase in quality delivered to the customers as well as an improved operational efficiency , during 2018 a reversal of provision amounting to 10,17 million was performed referring to the first year of the plan.
- The Bank has sold in 2017 a portfolio of non-performing loans with a net book value of RON 5.1 million by transferring the contractual rights to receive the cash flow. The transferred exposures were impaired at the date of transfer and the contractual maturity expired before the transfer date. According to the selling agreement the Bank should reimburse the buyer an amount of maximum 20.1 million if the latter identifies loans for which the recovery is not possible. During 2018 the buyer has claimed an amount of 5 million while based on the Bank assessment regarding any additional claims an amount of 14 million was released. Thus during 2018, the Bank has utilised 5 million and reversed 14.1 million. The period during which the buyer can claim the indemnities for irrecoverable claims is 3 years from the date of the transfer of receivables.

(Amounts in thousands RON)

24. Other liabilities (continued)

The movement in other provisions is as follows:

Group	Cost of risk	Other	TOTAL
Carrying value as of December 31,2016	**16,346**	**3,141**	**19,486**
Additional expenses	46,607	29,300	75,907
Reversals of provisions	(13,600)	(2,323)	(15,923)
Carrying value as of December 31,2017	**49,352**	**30,117**	**79,470**
Additional expenses	-	5,003	5,003
Reversals of provisions	(19,644)	(26,036)	(45,680)
Carrying value as of December 31, 2018	**29,708**	**9,084**	**38,793**

Bank			
Carrying value as of December 31,2016	**16,346**	**262**	**16,608**
Additional expenses	45,546	29,300	74,846
Reversals of provisions	(13,600)	(262)	(13,863)
Carrying value as of December 31,2017	**48,291**	**29,300**	**77,591**
Additional expenses	-	4,799	4,799
Reversals of provisions	(19,128)	(26,008)	(45,136)
Carrying value as of December 31, 2018	**29,163**	**8,091**	**37,254**

The movement in financial guarantee and loan commitments provisions is as follows:

(Amounts in thousands RON)

24. Other liabilities (continued)

Financial guarantees and loan commitments provisions

Group	Retail lending			
	Stage 1	Stage 2	Stage 3	**Total**
Provision as at 1 st January 2018 (under IFRS 9)	697	1,533	3,027	**5,258**
New commitments originated or purchased	783	579	251	**1,613**
Commitments derecognised or transferred into assets	(251)	(964)	(649)	**(1,864)**
Net provision movement not resulting from changes in classification	285	74	50	**409**
Movements due to change in classification	(15)	65	175	**225**
Other adjustments	0	0	1	**1**
Provision as at 31 December 2018	**1,499**	**1,287**	**2,852**	**5,639**

	Non-Retail			
	Stage 1	Stage 2	Stage 3	**Total**
Provision as at 1 st January 2018 (under IFRS 9)	20,262	123,785	132,232	**276,279**
New commitments originated or purchased	12,025	5,592	60	**17,677**
Commitments derecognised or transferred into assets	(9,440)	(8,825)	(58,727)	**(76,991)**
Net provision movement not resulting from changes in classification	16,896	(28,258)	1,698	**(9,664)**
Movements due to change in classification	(626)	20,378	97,596	**117,348**
Other adjustments	24	104	14,252	**14,379**
Provision as at 31 December 2018	**39,141**	**112,777**	**187,112**	**339,030**

	Total			
	Stage 1	Stage 2	Stage 3	**Total**
Provision as at 1 st January 2018 (under IFRS 9)	20,960	125,319	135,259	**281,537**
New commitments originated or purchased	12,808	6,171	311	**19,291**
Commitments derecognised or transferred into assets	(9,691)	(9,788)	(59,376)	**(78,855)**
Net provision movement not resulting from changes in classification	17,180	(28,184)	1,749	**(9,255)**
Movements due to change in classification	(640)	20,443	97,771	**117,573**
Other adjustments	24	104	14,253	**14,380**
Provision as at 31 December 2018	**40,641**	**114,064**	**189,964**	**344,669**

(Amounts in thousands RON)

24. Other liabilities (continued)

Financial guarantees and loan commitments provisions

Bank	Retail lending			
	Stage 1	Stage 2	Stage 3	**Total**
Provision as at 1 st January 2018 (under IFRS 9)	686	1,533	3,027	**5,246**
New commitments originated or purchased	775	579	251	**1,605**
Commitments derecognised or transferred into assets	(247)	(964)	(649)	**(1,860)**
Net provision movement not resulting from changes in classification	285	74	50	**409**
Movements due to change in classification	(15)	65	175	**225**
Other adjustments	0	0	1	**1**
Provision as at 31 December 2018	**1,484**	**1,287**	**2,852**	**5,624**

	Non-Retail			
	Stage 1	Stage 2	Stage 3	**Total**
Provision as at 1 st January 2018 (under IFRS 9)	20,143	123,771	159,801	**303,715**
New commitments originated or purchased	11,941	5,529	60	**17,530**
Commitments derecognised or transferred into assets	(9,324)	(8,575)	(58,727)	**(76,625)**
Net provision movement not resulting from changes in classification	16,893	(28,362)	1,698	**(9,771)**
Movements due to change in classification	(599)	20,411	97,596	**117,408**
Other adjustments	9	120	573	**702**
Provision as at 31 December 2018	**39,064**	**112,894**	**201,001**	**352,959**

	Total			
	Stage 1	Stage 2	Stage 3	**Total**
Provision as at 1 st January 2018 (under IFRS 9)	20,829	125,305	162,828	**308,961**
New commitments originated or purchased	12,716	6,108	311	**19,135**
Commitments derecognised or transferred into assets	(9,571)	(9,538)	(59,376)	**(78,485)**
Net provision movement not resulting from changes in classification	17,178	(28,289)	1,749	**(9,362)**
Movements due to change in classification	(613)	20,476	97,771	**117,633**
Other adjustments	9	120	574	**703**
Provision as at 31 December 2018	**40,548**	**114,182**	**203,854**	**358,583**

(Amounts in thousands RON)

24. Other liabilities (continued)

Post-employment benefit plan

This is a defined benefit plan under which the amount of benefit that an employee is entitled to receive on retirement depends on years of service and salary. The plan covers substantially all the employees and the benefits are unfunded. A full actuarial valuation by a qualified independent actuary is carried out annually. During 2018, the movements in service cost, benefits paid from defined benefit obligation and changes in financial assumptions resulted in a significant change of obligation carrying value compared to 31 December 2017, 49,281 as of December 31, 2018 and 78,480 as of December 31, 2017.

Reserves from defined pension plan are in total amount of 23,399 as at December 31, 2018 (December 31, 2017: -4,421), during the year the Bank registered gain on pension plan in total amount of 27,819 (December 31, 2017: gain 229).

Movement in defined benefits obligations

	December 31, 2018	December 31, 2017
Opening defined benefit obligation	**78,480**	**74,972**
Total service cost	3,489	3,593
Benefits paid	(823)	(1,007)
Interest cost on benefit obligation	1,253	1,195
Actuarial (gains) / losses arising from changes in demographic assumptions	32	(1,209)
Actuarial (gains) / losses arising from changes in financial assumptions	(33,148)	936
Closing defined benefit obligation	**49,281**	**78,480**

Main actuarial assumptions

Main actuarial assumptions

	December 31, 2018	December 31, 2017
Discount rate	1.60%	1.60%
Long term inflation rate	1.46%	1.79%
Average remaining working period (years)	12.00	12.33

24. Other liabilities (continued)

Sensitivities on the defined benefit obligation

The results of any valuation depend upon the assumptions employed. Significant actuarial assumptions for the determination of the defined obligation are discount rate and expected salary increase.

The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

- If the discount rate used were 0.5% higher, then the defined benefit obligation would be lower by about 6,70% meaning 45,980.
- If the discount rate used were 0.5% lower, then the defined benefit obligation would be higher by about 7,39% meaning 52,922.
- If the salary increase rate used were 0.5% higher, then the defined benefit obligation would be higher by about 7,34% meaning 52,900.

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognised in the statement of financial position.

The eventual cost of providing the benefits depends on the current future experience. Other factors such as the number of new employees could also change the cost.

25. Share capital

The nominal share capital, as registered with the Registry of Commerce is 696,901 (2017: 696,901). Included in the share capital there is an amount of 1,818,721 (2017: 1,818,721) representing hyperinflation restatement surplus.

Share capital as of December 31, 2018 represents 696,901,518 (2017: 696,901,518) authorized common shares, issued and fully paid. The nominal value of each share is RON 1 (2017: RON 1). During 2018 and 2017, the Bank did not buy back any of its own shares.

(Amounts in thousands RON)

26. Interest and similar income

	Group		Bank	
	2018	2017	2018	2017
Interest on loans	1,750,879	1,527,438	1,613,547	1,403,219
Interest on deposit with banks	39,153	12,761	38,449	11,813
Interest on available for sale/ financial assets at FVOCI	358,278	314,260	358,278	314,260
Interest from hedging instruments	10,184	5,675	10,184	5,675
Total	**2,158,494**	**1,860,134**	**2,020,458**	**1,734,967**

The interest income on loans includes the accrued interest on net (after impairment allowance) impaired loans in amount of 95,950 for Group and 78,121 for Bank (2017: 115,353 for Group and 92,125 for Bank).

27. Interest and similar expense

	Group		Bank	
	2018	2017	2018	2017
Interest on term deposits	110,680	103,427	111,538	105,542
Interest on demand deposits	39,280	23,723	39,382	23,734
Interest on borrowings	19,714	13,612	206	1,335
Total	**169,675**	**140,762**	**151,126**	**130,611**

28. Fees and commissions, net

	Group		Bank	
	2018	2017	2018	2017
Services	655,770	633,066	646,003	621,327
Management fees	114,042	112,290	114,042	112,290
Packages	49,884	49,043	49,884	49,043
Transfers	108,138	110,197	108,138	110,197
OTC withdrawal	62,322	63,982	62,322	63,982
Cards	222,581	203,918	222,581	203,918
Brokerage and custody	33,134	30,689	33,134	30,689
Other	65,670	62,947	55,904	51,208
Loan activity	107,878	100,426	79,799	75,413
Off balance sheet	33,499	29,551	33,499	29,550
Total	**797,147**	**763,043**	**759,301**	**726,290**

(Amounts in thousands RON)

29. Gain on derivative and other financial instruments held for trading and foreign exchange

	Group		Bank	
	2018	2017	2018	2017
FX position revaluation	(37,016)	39,069	(37,016)	253,850
FX Spot	211,426	212,924	210,334	212,081
Gain on instruments held for trading	18,520	10,142	18,520	9,962
Derivative financial instruments	96,999	(5,049)	96,998	(219,828)
Gain / (loss) on interest rate derivatives	9,574	(4,318)	9,573	(111,708)
Gain/ (loss) on currency and interest swap	27,891	7,822	27,891	(99,568)
Gain/ (loss) on forward foreign exchange contracts	56,112	(14,695)	56,112	(14,695)
Gain on currency options	3,817	4,215	3,817	4,215
Gain / (loss) on hedging	(1,060)	(1,358)	(1,060)	(1,358)
Other	666	3,286	666	3,286
Gain/ (loss) on derivative, other financial instruments held for trading and foreign exchange	**289,929**	**257,087**	**288,837**	**256,064**

30. Other income

For the Bank, other income includes dividends from subsidiaries in amount of 32,913 as of December 31, 2018 (December 31, 2017: 24,603), income from banking activities offered to the clients and income from non-banking activities, such as income from rentals. The income from rental of investment properties, for the Bank, is 1,849 (2017: 1,888).

31. Contribution to Guarantee Scheme and Resolution Fund

According to the Romanian legislation (Law no. 311/2015 on Deposit Guarantee Schemes and the Bank Deposit Guarantee Fund), the deposits of individuals and certain entities, including small and medium enterprises and large companies are covered up to EUR 100,000 by the Bank Deposit Guarantee Fund ("Fund").

Each credit institution participating to deposit guarantee scheme shall pay the annual contribution as determined and notified by the Fund. The amount of the contribution refers to the total covered deposits at the end of the previous year and reflects also the degree of risk associated to each credit institution in the scheme.

The degree of risk is determined based on the financial and prudential indicators reported by the credit institutions to the National Bank of Romania. For this purpose, the Bank Deposits Guarantee Fund uses a methodology approved by the National Bank of Romania considering also the guidelines issued by the European Banking Authority.

As of December 2018 the expense related to the Deposit Guarantee Fund amounts to 14,487 (December 31, 2017: 6,957).

According to Law no. 312/2015 on recovery and resolution of credit institution and investment firms, each credit institution shall pay an annual contribution to Bank Resolution Fund as determined and notified by the National Bank of Romania.

(Amounts in thousands RON)

31. Contribution to Guarantee Scheme and Resolution Fund (continued)

The National Bank of Romania as the local resolution authority establish the credit institutions annual contributions to Bank Resolution Fund, in compliance with Commission Delegated Regulation EU 2015/63, supplementing Directive 2014/59 of the European Parliament and of the Council with regard to ex ante contributions to resolution financing arrangements.

For the year ended December 31, 2018 the expense related to the Bank Resolution Fund was 20,694 (December 2017: 63,792).

Both contributions to the Bank Deposit Guarantee Fund and Bank Resolution Fund meet the criteria for recognition as taxes and accounted in accordance with IFRIC 21 "Levies" requirements. The liability is recognized at the date when the obligating event occurs and the contribution is recognized as an expense in full at the same date.

32. Personnel expenses

	Group		Bank	
	2018	2017	2018	2017
Salaries	675,172	554,611	631,167	517,950
Social security	17,190	123,024	15,652	115,423
Bonuses	52,528	47,963	49,927	45,640
Post-employment benefits	4,742	3,781	4,742	3,781
Other	18,196	9,774	14,213	8,142
Total	**767,828**	**739,153**	**715,700**	**690,936**

In 2018, the expense related to the Bank defined benefit plan contribution was 4,665 (in 2017: 4,732).

33. Depreciation, amortisation and impairment on tangible and intangible assets

	Group		Bank	
	2018	2017	2018	2017
Depreciation and impairment	95,757	102,387	94,749	101,215
Amortisation	38,269	34,633	36,634	32,838
Total	**134,026**	**137,020**	**131,384**	**134,053**

The difference as at December 31, 2018 between the amount presented in note 16 and the amount presented in note 33 represents depreciation of investment property in total amount of 1,380 (December 31, 2017: 1,390).

(Amounts in thousands RON)

34. Other operating expense

	Group		Bank	
	2018	2017	2018	2017
Administrative expenses	433,560	416,415	404,902	389,042
Publicity and sponsorships	41,658	37,267	40,727	36,217
Other expenses	77,568	72,613	71,901	66,570
Total	**552,785**	**526,295**	**517,530**	**491,829**

The Group and Bank has operating leases that are cancellable with prior notice periods that are much shorter than the remaining contract period and/or with penalties to be paid which are much lower than lease expense for the remaining contract period. For details regarding future minimum lease payments please see note 36.

Administrative expenses refer mainly to rentals, maintenance expenses, local taxes and various utilities such as energy and telecommunication. This line also includes audit fees amounting 2,790 for Group (of which statutory audit in amount of 2,040, assurance services in amount of 694 and other non-assurance services in amount of 56) and 2,245 for Bank (statutory audit in amount of 1,496, assurance services in amount of 694 and other non-assurance services in amount of 56).

35. Cost of risk

	Group		Bank	
	2018	2017	2018	2017
Net impairment allowance for loans	(112,418)	20,958	(119,526)	(753)
Net impairment allowance for sundry debtors	42,876	34,999	45,077	37,015
Net impairment allowance for credit risk and charges	(19,644)	30,158	(19,128)	31,946
Net impairment allowance for finance lease	(2,311)	2,348	-	-
Income from recoveries of derecognized receivables	(214,562)	(473,915)	(214,562)	(467,217)
Write-offs & sales of bad debts	29,680	57,305	15,705	54,692
Financial guarantee and loan contracts provisions	48,751	(31,371)	48,918	(31,371)
Net impairment allowance for debt securities	(2,759)	-	(2,759)	-
	(230,388)	**(359,517)**	**(246,276)**	**(375,687)**

The net cost of risk registered a release of 230 million (for the Group) and 246 million (for the Bank) mainly due to strong recovery performance and limited new defaults.

(Amounts in thousands RON)

36. Other commitments

	Group		Bank	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Tangible non-current assets	3,221	3,093	3,221	3,093
Intangible non-current assets	26,809	8,002	26,809	8,002
Operational leasing, rents and other services	541,164	427,747	541,164	427,747
Total	**571,194**	**438,842**	**571,194**	**438,842**

As at December 31, 2018 and December 31, 2017 the future minimum lease payments regarding operating leases and rents concluded by the Group and Bank as a lessee are:

	Group		Bank	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Less than one year	96,186	75,574	96,186	75,574
Between one and five years	327,443	199,145	327,443	199,145
More than five years	115,375	149,927	115,375	149,927
Total	**539,004**	**424,646**	**539,004**	**424,646**

(Amounts in thousands RON)

37. Related parties

The Group entered into related party transactions with its parent, other SG entities, subsidiaries, associates and key management personnel. All related party transactions were made on substantially the same terms, including interest rates and collateral requirements, as those prevailing for similar transactions with unrelated parties. The transactions/balances with subsidiaries were eliminated for consolidation purposes. The transactions/balances with related parties can be summarized as follows:

	Group							
	2018				2017			
	Parent	Other related parties	Associates	Key management of the institution	Parent	Other related parties	Associates	Key management of the
Assets	**195,897**	**44,267**	**8,420**	**1,823**	**184,223**	**72,334**	**6,542**	**2,045**
Nostro accounts	12,760	33,110	218	-	22,906	49,464	209	-
Deposits	18,423	-	-	-	19,035	-	-	-
Loans	54,975	11,037	3,872	1,823	73,266	22,687	3,121	2,042
Derivative financial instruments	103,509	-	-	-	65,776	-	-	3
Other assets	6,229	120	4,330	-	3,240	183	3,212	-
Liabilities	**1,276,459**	**28,622**	**144,816**	**11,749**	**1,568,160**	**116,356**	**113,416**	**12,101**
Loro accounts	41	15,439	1,477	-	2,036	74,278	2,384	-
Deposits	111,967	12,770	142,740	11,749	506,382	41,263	110,370	12,095
Borrowings	1,052,415	-	-	-	920,028	-	-	-
Derivative financial instruments	65,192	-	-	-	102,199	-	-	-
Other liabilities	46,845	412	599	-	37,515	815	662	6
Commitments	**9,283,406**	**57,632**	**14,701**	**273**	**7,578,705**	**75,922**	**5,553**	**478**
Total commitments granted	123,114	7,516	2,012	273	101,461	8,679	2,012	362
Total commitments received	979,957	50,117	12,688	-	860,774	67,243	3,541	-
Notional amount of foreign exchange transactions	4,007,994	-	-	-	4,823,576	-	-	-
Notional amount of interest rate derivatives	4,172,342	-	-	-	1,792,894	-	-	116
Income statement	**11,116**	**(3,800)**	**20,912**	**31**	**(225,002)**	**3,028**	**23,135**	**44**
Interest and commision revenues	17,273	2,906	14,605	58	14,964	2,215	13,185	81
Interest and commission expense	(21,986)	(2,332)	(633)	(26)	(17,328)	(1,061)	(153)	(40)
Net gain/(loss) on interest rate derivatives	(30,693)	-	-	(0)	(11,561)	-	-	3
Net gain /(loss) on foreign exchange derivatives	91,537	(40)	-	-	(159,142)	(116)	-	-
Dividend income	-	7	17,970	-	-	3	19,490	-
Other income	4,593	377	16,658	-	2,131	304	13,467	-
Other expenses	(49,609)	(4,718)	(27,690)	-	(54,066)	1,683	(22,854)	-

(Amounts in thousands RON)

37. Related parties (continued)

	Bank									
	2018					2017				
	Parent	Other related parties	Subsidiaries	Associates	Key management of the institution	Parent	Other related parties	Subsidiaries	Associates	Key management of the institution
Assets	**177,474**	**44,267**	**42,979**	**4,291**	**1,823**	**165,187**	**72,334**	**44,756**	**3,852**	**2,045**
Nostro accounts	12,760	33,110	-	218	-	22,906	49,464	-	209	-
Deposits	-	-	-	-	-	-	-	-	-	-
Loans	54,975	11,037	41,518	3,872	1,823	73,266	22,687	43,306	3,121	2,042
Derivative financial instruments	103,509	-	56	-	-	65,776	-	3	-	3
Other assets	6,229	120	1,405	201	-	3,240	183	1,447	522	-
Liabilities	**222,853**	**28,622**	**98,806**	**144,801**	**11,749**	**647,477**	**116,339**	**191,343**	**113,375**	**12,100**
Loro accounts	41	15,439	-	1,477	-	2,036	74,278	-	2,384	-
Deposits	111,967	12,770	98,569	142,740	11,749	506,382	41,263	167,626	110,370	12,095
Lease payable	-	-	227	-	-	-	-	23,665	-	-
Derivative financial instruments	65,192	-	-	-	-	102,199	-	-	-	-
Other liabilities	45,653	412	10	584	-	36,860	798	52	621	6
Commitments	**9,283,407**	**57,632**	**64,067**	**14,700**	**273**	**7,578,705**	**75,922**	**57,676**	**5,553**	**479**
Total commitments granted	123,114	7,516	40,747	2,012	273	101,461	8,679	55,671	2,012	362
Total commitments received	979,957	50,117	-	12,688	-	860,774	67,243	-	3,541	-
Notional amount of foreign exchange transactions	4,007,994	-	23,320	-	-	4,823,576	-	2,006	-	-
Notional amount of interest rate derivatives	4,172,342	-	-	-	-	1,792,894	-	-	-	116
						-	-	-	-	-
Income statement	**28,823**	**(4,625)**	**48,802**	**8,640**	**31**	**(211,901)**	**2,114**	**37,645**	**12,054**	**45**
Interest and commision revenues	16,570	1,884	14,776	455	58	14,016	1,304	14,970	336	81
Interest and commission expense	(4,559)	(2,332)	(1,132)	(633)	(26)	(4,286)	(1,061)	(2,662)	(153)	(40)
Net gain/(loss) on interest rate derivatives	(30,693)	-	-	-	(0)	(11,561)	-	-	-	3
Net gain /(loss) on foreign exchange derivatives	91,537	(40)	(2)	-	-	(159,142)	(116)	(262)	-	-
Dividend income	-	7	32,913	17,970	-	-	3	24,603	19,490	-
Other income	4,593	377	2,541	16,581	-	2,131	304	2,747	13,396	-
Other expenses	(48,625)	(4,521)	(295)	(25,733)	-	(53,059)	1,680	(1,752)	(21,016)	-

(Amounts in thousands RON)

37. Related parties (continued)

Other liabilities, and other expenses include mainly corporate and technical assistance with Societe Generale Paris.

The Bank has collateral received from SG Paris regarding derivative instruments in total amount of 53,786 (December 31, 2017: 24,808).

As of December 30, 2018 the Board of Directors and Managing Committee members own 304,530 shares (2017: 304,530).

Key management personnel benefits for 2018 and 2017:

	Group		Bank	
	2018	**2017**	**2018**	**2017**
Short-term benefits	14,812	15,582	10,800	11,343
Long-term benefits	4,230	3,088	3,861	2,898

(Amounts in thousands RON)

38. Interest in unconsolidated structured entities

According to IFRS 12 applied starting with January 1, 2014 the Group and Bank has to present the interests it has in entities that have been designated so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

The Group and Bank has identified the investment funds in which it invested during the years and which manages, through the Bank's subsidiary, BRD Asset Management, as being unconsolidated structured entities. The structured entities are financed through the resources (unit funds) received from individuals and corporates that are afterwards placed on monetary and capital markets.

Group interest in unconsolidated structured entities and size of structured entities in 2018:

Name of structured enitity	Carrying amount of financial assets recognised in the reporting institution's balance sheet	Of which: liquidity support drawn	Fair value of liquidity support drawn	Carrying amount of financial liabilities recognised in the reporting institution's sheet	Nominal amount of off-balance sheet items given by the reporting institution	Of which: Nominal amount of loan commitments given	Losses incurred by the reporting institution in the current period	Maximum exposure to loss	Total balance sheet of the structured entity (size)
BRD Simfonia	16,457	-	-	27,746	-	-	-	16,457	1,468,286
BRD Obligatiuni	3,851	-	-	2,175	-	-	-	3,851	84,879
BRD Index	978	-	-	677	-	-	-	978	8,698
BRD Actiuni	7,879	-	-	3,680	-	-	-	7,879	54,356
BRD Diverso	6,440	-	-	10,035	-	-	-	6,440	73,651

(Amounts in thousands RON)

38. Interest in unconsolidated structured entities (continued)

Breakdown of interests in unconsolidated structured entities in 2018:

Name of structured enitity	Selected financial assets recognised in the reporting institution's balance sheet						Selected equity and financial liabilites recognised in the reporting institution's balance sheet					Off-balance sheet items given by the reporting institution	
	of which: defaulted	Derivatives	Equity instruments	Debt securities	Loans and advances	Total	Equity instruments issued	Derivatives	Deposits	Debt securities issued	Total	of which: defaulted	Total
BRD Simfonia	-	281	16,176	-	-	16,457	-	5,310	22,436	-	27,746	-	-
BRD Obligatiuni	-	150	3,701	-	-	3,851	-	348	1,827	-	2,175	-	-
BRD Index	-	3	976	-	-	978	-	5	672	-	677	-	-
BRD Actiuni	-	22	7,857	-	-	7,879	-	24	3,656	-	3,680	-	-
BRD Diverso	-	37	6,403	-	-	6,440	-	97	9,938	-	10,035	-	-

Interest in unconsolidated structured entities and size of structured entities in 2017:

Name of structured enitity	Carrying amount of financial assets recognised in the reporting institution's balance sheet	Of which: liquidity support drawn	Fair value of liquidity support drawn	Carrying amount of financial liabilities recognised in the reporting institution's sheet	Nominal amount of off-balance sheet items given by the reporting institution	Of which: Nominal amount of loan commitments given	Losses incurred by the reporting institution in the current period	Maximum exposure to loss	Total balance sheet of the structured entity (size)
BRD Simfonia	28,487	-	-	72,398	-	-	-	28,487	1,388,942
BRD Obligatiuni	4,584	-	-	6,605	-	-	-	4,584	107,065
BRD Index	2,672	-	-	452	-	-	-	2,672	10,793
BRD Actiuni	17,130	-	-	657	-	-	-	17,130	36,065
BRD Diverso	22,046	-	-	2,965	-	-	-	22,046	42,857

(Amounts in thousands RON)

38. Interest in unconsolidated structured entities (continued)

Breakdown of interests in unconsolidated structured entities in 2017:

Name of structured enitity	Selected financial assets recognised in the reporting institution's balance sheet						Selected equity and financial liabilites recognised in the reporting institution's balance					Off-balance sheet items given by the	
	of which: defaulted	Derivatives	Equity instruments	Debt securities	Loans and advances	Total	Equity instruments issued	Derivatives	Deposits	Debt securities issued	Total	of which: defaulted	Total
BRD Simfonia	-	10,419	18,068	-	-	28,487	-	118	72,398	-	72,516	-	-
BRD Obligatiuni	-	971	3,613	-	-	4,584	-	-	6,605	-	6,605	-	-
BRD Index	-	6	2,666	-	-	2,672	-	-	452	-	452	-	-
BRD Actiuni	-	7	17,123	-	-	17,130	-	-	657	-	657	-	-
BRD Diverso	-	173	21,872	-	-	22,046	-	-	2,965	-	2,965	-	-

(Amounts in thousands RON)

39. Contingencies

As of December 31, 2018 the Bank is the defendant in a number of lawsuits arising in the course of business, amounting to approximately 841,501 (December 31, 2017: 204,058). The amounts disclosed represent the additional potential loss in the event of a negative court decision, the amounts not being provisioned. The management believes that the ultimate resolution of these matters will not have a material adverse effect on the Group's overall financial position and performance. The Bank already booked a provision of 7,536 (December 31, 2017: 18,576) and the Group 9,075 (December 31, 2017: 20,456) in relation with the litigations.

40. Earnings per share

Basic earnings per share are calculated by dividing net profit/ (loss) for the reporting period attributable to ordinary equity holders of the parent by the weighted average number of shares outstanding during the year. As of December 31, 2018 and December 31, 2017 there were no dilutive equity instruments issued by the Group and Bank.

	Group		Bank	
	2018	**2017**	**2018**	**2017**
Ordinary shares on market	696,901,518	696,901,518	696,901,518	696,901,518
Profit attributable to shareholders	1,555,702	1,406,360	1,545,989	1,380,384
Earnings per share (in RON)	2.2323	2.0180	2.2184	1.9807

41. Risk management

Risk management within the Group and Bank is based on an integrated concept that takes into account the statutory and regulatory norms as defined and required by the National Bank of Romania, Société Générale risk management standards as well as best practices accepted by the banking industry. The level of risk appetite fully reflects the Group's and Bank's risk management strategy, aiming to support a sustainable growth of its lending activity while reinforcing the Bank's and Group's market position.

Risk governance relies on the three lines of defense model, which reinforces segregation of duties between various control functions.
The *first line* of defense is represented by the business units, which are primarily responsible for the ongoing management of the risks arisen in conducting their daily activities, taking into account the Bank's risk appetite and its existing policies, procedures and controls.
The *second line* of defense is represented by the independent functions overseeing risks, which are responsible for further identifying, measuring, monitoring and reporting risks, while ensuring the compliance with internal and external requirements and providing support to the business/operational functions in executing their duties.
The *third line* of defense is represented by the internal audit function which provides independent review and objective assurance on the quality and effectiveness of the Bank's internal control system, the first and second lines of defence and the risk governance framework.

The Group and Bank's risk management governance is centered along the following axes:

- continuous process of identification, assessment, monitoring, reporting and control, considering risk limits, approval competences, segregation of duties and other mitigation techniques;
- risks are taken within the defined risk appetite approved by the Board of Directors
- strong involvement of the Bank's management body in the risk management system and promotion of risk culture, throughout the entire organizational structure, from the Board of Directors down to operational teams;
- clearly defined internal rules and procedures;
- communication of information regarding risk management across the organization in a timely, accurate, comprehensible and meaningful manner;
- continuous supervision by an independent risk function to monitor risks and to enforce rules and procedures.

The Group and Bank's risk management is organized around two key principles:

- risk assessment departments must be independent from the business divisions;
- the risk management approach and risk monitoring must be consistent throughout the Group and Bank.

The Group and the Bank is exposed to the risks inherent to its core businesses. The main financial assets and liabilities are the loans and advances, lease receivables, amounts placed with NBR, demand and term deposits and borrowings. These instruments are exposed to a series of risks such as credit risk, foreign exchange risk, interest rate risk, liquidity risk and market risk which are discussed below.

41. Risk management (continued)

41.1 Credit risk

Credit risk represents current or future risk of negative impact on profits and capital arising from a debtor's failure to fulfil the contractual obligations or failure to perform as agreed. The credit risk is inherent to traditional banking products - loans, commitments to lend and other contingent liabilities such as letters of credit - and to fair value derivative contracts (refer to the Notes 10, 11, 12, 14 and 39).

The Group and Bank's credit policy is based on the principle that approval of any credit risk undertaking must rely on a sound knowledge of a given client and its business, an understanding of the purpose and structure of the transaction and the sources of debt repayment. As part of Group Société Générale, the Bank has a cash flow based lending approach, meaning the bank expects debt to be serviced primarily through the future cash flow (legal entities)/ income (individuals) generated by the client.

The Group and Bank assesses the quality of its non retail portfolio by use of Société Générale's rating system, with a scale from 1 to 10 (1 to 7- in bonis exposures, 8 to 10 – defaulted exposures). Within the in bonis portfolio, the most vulnerable counterparts are grouped into a distinct category (referred to as sensitive, rating class 7) which is subject to increased monitoring requirements, in order to improve reactivity through timely implementation of corrective measures.

The internal rating system is based on models that include both quantitative and qualitative assessment criteria, differentiated by counterparty type and size, in which the expert judgment is a key element. Internal models are developed based on the Group and Bank's available data history and the use of rating model is regulated by internal norms and procedures. Rating review is performed at least once per year, or as soon as new and significant aspects impacting the credit quality of the counterparty occur. This process results in the classification of exposures between sound, sensitive and non performing client status.

Throughout the post approval period, the monitoring of counterparties is conducted on a continuous basis, so that potential vulnerabilities can be identified early and reacted upon. The outcome of monitoring activity is analyzed as an inherent responsibility of commercial and risk structures. Risky counterparts defined according to internally prescribed criteria are closely monitored through dedicated committees, with the aim of defining a strategy towards them and ensuring consistent rating and loss recognition.

Retail counterparties are assessed at origination, based on application scorecards and/or behavioral rating models, and monitored throughout the lifespan of the loans using behavioral rating models.

Security, in the form of collateral (funded protection) or guarantee (unfunded protection), is accepted by the Bank in order to mitigate credit risk and do not serve as a substitute for the borrower's ability to meet obligations. The securities accepted by the Bank in support of granted commitments primarily include real estate, both residential and commercial, guarantees issued by other banks and guarantee funds, equipments and inventories.

Concentration risk related to credit risk is managed primarily through a set of limits established based on the Bank's risk appetite and the expectations on the evolution of the economic environment. The limits are monitored periodically and revised whenever necessary, but at least annually. The set of limits is related to the following dimensions: individual concentration (single name or group of connected clients), economic sector concentration, geographical concentration, concentration by product type/transaction type and credit risk mitigations techniques types.

(Amounts in thousands RON)

41. Risk management (continued)

41.1 Credit risk (continued)

Maximum exposure to credit risk before considering any collaterals or guarantees

	Group	
	December 31, 2018	December 31, 2017
ASSETS		
Due from Central Bank	3,785,491	5,757,953
Due from banks	3,316,344	2,549,512
Derivatives and other financial instruments held for trading	2,252,463	637,686
Loans, gross	31,576,437	32,088,555
Impairment allowance for loans	(1,973,161)	(2,480,133)
Loans and advances to customers	29,603,276	29,608,422
Finance lease receivables	761,012	727,768
Financial assets available for sale	-	12,036,572
Financial assets at fair value through profit and loss	82,476	-
Financial assets at fair value through other comprehensive income	12,059,561	-
Other assets	131,911	199,144
Total assets	**51,992,534**	**51,517,057**
Letters of guarantee granted	5,308,124	5,257,706
Financing commitments granted	3,693,281	5,395,987
Total commitments granted	**9,001,404**	**10,653,693**
Total credit risk exposure	**60,993,938**	**62,170,750**

	Bank	
	December 31, 2018	December 31, 2017
ASSETS		
Due from Central Bank	3,785,491	5,757,953
Due from banks	3,297,915	2,530,468
Derivatives and other financial instruments held for trading	2,252,519	637,689
Loans, gross	30,768,470	31,418,550
Impairment allowance for loans	(1,875,127)	(2,406,625)
Loans and advances to customers	28,893,343	29,011,925
Financial assets available for sale	-	12,036,572
Financial assets at fair value through profit and loss	62,598	
Financial assets at fair value through other comprehensive income	12,059,561	
Other assets	119,157	190,209
Total assets	**50,470,584**	**50,164,816**
Letters of guarantee granted	5,323,714	5,291,373
Financing commitments granted	3,267,552	4,997,338
Total commitments granted	**8,591,265**	**10,288,711**
Total credit risk exposure	**59,061,849**	**60,453,527**

(Amounts in thousands RON)

41. Risk management (continued)

41.1 Credit risk (continued)

Analyses of the inputs to the ECL model under multiple economic scenarios

The Bank presents the estimation of key drivers for 2018 because these scenarios have produced effects during the year and have been used in the computation of ECL as at 31st of December 2018.

An overview of the approach to estimate ECLs is set out in Note 2 e) Significant accounting judgments and estimates and Note 3 Summary of significant accounting policies. Economic input data is obtained from a team of economists in the Bank and Group Société Générale. To ensure accuracy and completeness, inputs are corroborated with third party sources – economic forecasts issued by specialized institutions.

The table below shows the values of the key forward looking economic variables/ assumptions used in each of the economic scenarios for the ECL calculation

The Bank has assessed the potential impact of the latest regulatory developments such as GEO 114/2018 on the evolution of macroeconomic fundamentals and their impact on the expected credit losses.

December, 31 2018

Key drivers	ECL Scenario	Assigned probabilities	2018	2019	2020
		%			
GDP growth [%]					
	Baseline/ Central	73	3.9	3.5	3.1
	Optimistic	13	5.5	4.5	4.3
	Stress	14	0	-0.5	2.8
Unemployment rate [%]					
	Baseline/ Central	73	5.1	5.2	5.5
	Optimistic	13	4.8	4.7	4.9
	Stress	14	5.7	6.7	7.4
Exchange rate RON/EUR [RON]	Baseline/ Central	73	4.7	4.8	4.8
	Optimistic	13	4	3.7	3.6
	Stress	14	5.3	5.1	5.1

(Amounts in thousands RON)

41. Risk management (continued)

41.1 Credit risk (continued)

Considering the internal rating quality, the exposures of the counterparties not impaired and without overdues are split in 3 categories which are defined below:

Very good – The counterparty is considered to be very reliable. The capacity to service its debt is very strong.

Good – The counterparty is judged to be of good quality. The capacity to service its debt is strong but counterparty is somewhat more sensitive to adverse changes in circumstances and economic conditions.

Standard grade – The counterparty has an average solvency. The ability to service its debt is still sufficient, but more likely to be undermined by unfavourable economic conditions and changes in circumstances.

Sub-standard grade - The counterparty reflected credit behaviour or financial deterioration implying increased credit risk. Timely debt service repayment is uncertain and depends on favourable economic and financial conditions. Close and more frequent monitoring of the client's capacity to service the bank debt is needed, in order to be able to react to a potential deterioration via implementation of corrective measures.

The corresponding PD interval is depicted below:

Category	PD Interval
Very good grade	[0,00%;0,74%)
Good grade	[0,74%;3,88%)
Standard grade	[3,88%;12,79%)
Sub-standard grade	>12,79%

Analysis of due from banks by credit rating

	Group		Bank	
	December 31, 2018	**December 31, 2017**	**December 31, 2018**	**December 31, 2017**
Gross carrying amount	**3,316,430**	**2,549,512**	**3,298,001**	**2,530,468**
Internal rating grade				
Very good grade	3,303,465	2,400,725	3,285,036	2,381,681
Good grade	7,009	48,447	7,009	48,447
Standard grade	218	92,062	218	92,062
Not rated internally	5,738	8,278	5,738	8,278
Total	**3,316,430**	**2,549,512**	**3,298,001**	**2,530,468**
Less allowance	(87)	-	(87)	-
Net Carying amount	**3,316,344**	**2,549,512**	**3,297,915**	**2,530,468**

(Amounts in thousands RON)

41. Risk management (continued)

41.1 Credit risk (continued)

Sector analysis of loans granted and impairment allowance

Group	December 31, 2018								December 31, 2017
%	Stage 1		Stage 2		Stage 3		Total		
	Gross carrying amount	Impairment allowance	Gross carrying amount	Impairment allowance	Gross carrying amount	Impairment allowance	Gross carrying amount	Impairment allowance	Gross carrying amount
Individuals	67.0%	65.8%	82.7%	68.7%	52.5%	47.4%	69.8%	53.9%	65.6%
Public administration, education & health	4.8%	3.8%	2.2%	5.2%	2.0%	1.8%	4.0%	2.7%	3.7%
Agriculture	1.5%	8.6%	1.1%	1.0%	3.4%	3.1%	1.5%	3.4%	1.7%
Manufacturing	6.5%	5.3%	4.3%	5.7%	7.7%	7.8%	6.0%	7.1%	6.6%
Transportation, IT&C and other services	3.2%	3.4%	1.3%	2.1%	1.7%	1.8%	2.6%	2.1%	2.5%
Trade	7.6%	5.8%	3.4%	3.0%	9.7%	11.3%	6.7%	8.9%	5.5%
Constructions	0.6%	0.5%	1.5%	3.3%	12.2%	14.8%	1.5%	10.8%	2.8%
Utilities	2.0%	2.0%	2.7%	10.2%	1.6%	2.2%	2.2%	3.7%	2.3%
Services	0.7%	0.7%	0.1%	0.2%	3.8%	3.8%	0.7%	2.7%	1.1%
Others	2.4%	2.0%	0.6%	0.7%	5.3%	5.9%	2.1%	4.4%	3.3%
Financial institutions	3.8%	2.1%	0.0%	0.0%	0.0%	0.0%	2.7%	0.3%	4.8%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Bank	December 31, 2018								December 31, 2017
%	Stage 1		Stage 2		Stage 3		Total		
	Gross carrying amount	Impairment allowance	Gross carrying amount	Impairment allowance	Gross carrying amount	Impairment allowance	Gross carrying amount	Impairment allowance	Gross carrying amount
Individuals	66.2%	63.1%	83.0%	68.4%	50.4%	44.7%	69.3%	51.7%	65.2%
Public administration, education & health	4.9%	4.1%	2.2%	5.3%	2.1%	1.9%	4.1%	2.9%	3.8%
Agriculture	1.5%	9.3%	0.9%	0.8%	3.6%	3.3%	1.5%	3.5%	1.5%
Manufacturing	6.7%	5.7%	4.3%	5.9%	8.1%	8.2%	6.2%	7.4%	6.8%
Transportation, IT&C and other services	2.9%	3.5%	1.1%	1.9%	1.7%	1.9%	2.4%	2.1%	2.4%
Trade	7.8%	6.2%	3.4%	3.1%	10.2%	11.9%	6.9%	9.4%	5.6%
Constructions	0.6%	0.5%	1.5%	3.4%	12.7%	15.6%	1.5%	11.3%	2.9%
Utilities	2.1%	2.2%	2.7%	10.4%	1.7%	2.3%	2.2%	3.9%	2.4%
Services	0.7%	0.8%	0.1%	0.2%	4.0%	4.0%	0.8%	2.9%	1.1%
Others	2.4%	2.2%	0.6%	0.7%	5.6%	6.2%	2.2%	4.6%	3.3%
Financial institutions	4.1%	2.3%	0.0%	0.0%	0.0%	0.0%	2.9%	0.3%	5.0%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Loans to individuals include mortgage loans, consumer loans and overdrafts.

(Amounts in thousands RON)

41. Risk management (continued)

41.1 Credit risk (continued)

Ageing analysis of past due but not impaired loans

Group
December 31, 2018

Stage 1	1 - 30 days	31 to 60 days	61 to 90 days	more than 90 days	Total
Non-retail lending	293,505	4,324	18,815	3,607	320,251
Small business lending	17,121	537	370	1,284	19,314
Consumer lending	1,014,392	6,685	2,025	10,226	1,033,328
Residential mortgages	235,607	7,785	1,681	5,086	250,159
Total	**1,560,626**	**19,330**	**22,892**	**20,203**	**1,623,052**
Stage 2	**1 - 30 days**	**31 to 60 days**	**61 to 90 days**	**more than 90 days**	**Total**
Non-retail lending	25,443	406	495	1,213	27,558
Small business lending	25,224	7,933	3,537	1,698	38,391
Consumer lending	585,010	82,507	33,567	11,763	712,846
Residential mortgages	1,079,112	141,542	34,893	13,723	1,269,269
Total	**1,714,788**	**232,388**	**72,491**	**28,396**	**2,048,065**
Total	**1 - 30 days**	**31 to 60 days**	**61 to 90 days**	**more than 90 days**	**Total**
Non-retail lending	318,948	4,730	19,311	4,821	347,809
Small business lending	42,345	8,471	3,907	2,982	57,705
Consumer lending	1,599,402	89,192	35,592	21,989	1,746,174
Residential mortgages	1,314,719	149,326	36,573	18,809	1,519,428
Total	**3,275,414**	**251,718**	**95,383**	**48,600**	**3,671,117**

December 31, 2017

	1 - 30 days	31 to 60 days	61 to 90 days	more than 90 days	Total
Non-retail lending	267,313	5,421	66,192	3,019	341,945
Small business lending	49,032	13,626	3,541	2,939	69,138
Consumer lending	1,118,684	89,088	39,619	18,058	1,265,449
Residential mortgages	1,296,187	160,661	50,223	14,199	1,521,270
Total	**2,731,216**	**268,796**	**159,575**	**38,215**	**3,197,802**

Bank
December 31, 2018

Stage 1	1 - 30 days	31 to 60 days	61 to 90 days	more than 90 days	Total
Non-retail lending	294,979	4,324	18,815	3,607	321,725
Small business lending	16,041	537	370	1,284	18,233
Consumer lending	451,546	6,685	2,025	10,226	470,481
Residential mortgages	235,607	7,785	1,681	5,086	250,159
Total	**998,173**	**19,330**	**22,892**	**20,203**	**1,060,599**
Stage 2	**1 - 30 days**	**31 to 60 days**	**61 to 90 days**	**more than 90 days**	**Total**
Non-retail lending	22,254	406	495	1,213	24,369
Small business lending	24,803	7,439	2,916	1,698	36,855
Consumer lending	584,831	74,086	33,567	11,763	704,245
Residential mortgages	1,079,112	141,542	34,893	13,723	1,269,269
Total	**1,710,999**	**223,473**	**71,870**	**28,396**	**2,034,739**
Total	**1 - 30 days**	**31 to 60 days**	**61 to 90 days**	**more than 90 days**	**Total**
Non-retail lending	317,233	4,730	19,311	4,821	346,094
Small business lending	40,843	7,977	3,286	2,982	55,088
Consumer lending	1,036,377	80,770	35,592	21,989	1,174,728
Residential mortgages	1,314,719	149,326	36,573	18,809	1,519,428
Total	**2,709,172**	**242,803**	**94,762**	**48,600**	**3,095,338**

December 31, 2017

	1 - 30 days	31 to 60 days	61 to 90 days	more than 90 days	Total
Non-retail lending	264,477	5,421	66,192	3,019	339,109
Small business lending	47,922	13,445	3,541	2,939	67,847
Consumer lending	1,051,523	89,088	39,619	18,058	1,198,288
Residential mortgages	1,296,187	160,661	50,223	14,199	1,521,270
Total	**2,660,109**	**268,615**	**159,575**	**38,215**	**3,126,514**

(Amounts in thousands RON)

41. Risk management (continued)

41.1 Credit risk (continued)

Ageing analysis of past due but not impaired lease receivables for Group

December 31, 2018

Stage 1	1 - 30 days	31 to 60 days	61 to 90 days	Total
Non-retail leases	**34,425**	**-**	**-**	**34,425**
Small business lending (retail) & residential	16,126	-	-	16,126
Consumer lending	14	-	-	14
Retail leases	**16,140**	**-**	**-**	**16,140**
Total	**50,565**	**-**	**-**	**50,565**

Stage 2	1 - 30 days	31 to 60 days	61 to 90 days	Total
Non-retail leases	**27,546**	**7,172**	**2,616**	**37,335**
Small business lending (retail) & residential	5,564	4,640	1,774	11,978
Consumer lending	4	-	10	14
Retail leases	**5,569**	**4,640**	**1,784**	**11,993**
Total	**33,115**	**11,812**	**4,400**	**49,328**

Total	1 - 30 days	31 to 60 days	61 to 90 days	Total
Non-retail leases	**61,971**	**7,172**	**2,616**	**71,760**
Small business lending (retail) & residential	21,690	4,640	1,774	28,104
Consumer lending	18	-	10	28
Retail leases	**21,709**	**4,640**	**1,784**	**28,133**
Total	**83,680**	**11,812**	**4,400**	**99,892**

December 31, 2017

	1 - 30 days	31 to 60 days	61 to 90 days	Total
Non-retail leases	**47,567**	**3,803**	**5,443**	**56,814**
Small business lending (retail) & residential	19,608	5,013	2,325	26,946
Consumer lending	320	-	50	370
Retail leases	**19,928**	**5,013**	**2,375**	**27,315**
Total	**67,495**	**8,816**	**7,818**	**84,129**

The Group and Bank monitors the exposures by considering the number of days past due contaminated at customer level. The amounts included in past due but not impaired and higher than 90 days represent amounts lower than the materiality threshold used for impaired loans classification.

(Amounts in thousands RON)

41. Risk management (continued)

41.1 Credit risk (continued)

Analysis of collateral coverage – Loans and advances

Group

December 31, 2018

	Over - collateralized exposure	Collaterals & Guarantees	Under- collateralized exposure	Collaterals & Guarantees
Corporate lending	1,499,583	3,367,404	7,414,692	1,458,744
Small business lending	286,448	778,705	389,005	31,398
Consumer lending	21,680	48,076	7,983,349	1,413
Residential mortgages	12,467,869	18,541,124	1,513,812	1,251,219
Retail lending	12,775,997	19,367,905	9,886,166	1,284,030
Total	**14,275,580**	**22,735,309**	**17,300,858**	**2,742,775**
out of which Stage 3				
Corporate lending	425,186	958,909	359,215	198,432
Small business lending	41,191	130,110	22,923	6,252
Consumer lending	612	1,183	464,366	249
Residential mortgages	309,524	568,712	163,619	107,852
Retail lending	351,328	700,006	650,908	114,353
Total	**776,513**	**1,658,915**	**1,010,123**	**312,785**

December 31, 2017

	Over - collateralized exposure	Collaterals & Guarantees	Under- collateralized exposure	Collaterals & Guarantees
Corporate lending	2,174,957	4,655,152	8,117,507	2,822,937
Small business lending	320,316	926,078	399,367	37,922
Consumer lending	22,793	50,464	7,564,114	8,219
Residential mortgages	11,527,867	17,316,318	1,961,634	1,635,390
Retail lending	11,870,977	18,292,861	9,925,115	1,681,531
Total	**14,045,934**	**22,948,013**	**18,042,622**	**4,504,469**

Bank

December 31, 2018

	Over - collateralized exposure	Collaterals & Guarantees	Under- collateralized exposure	Collaterals & Guarantees
Corporate lending	1,382,746	3,189,625	7,455,806	1,458,744
Small business lending	224,628	691,815	389,005	31,398
Consumer lending	21,680	48,076	7,312,924	1,413
Residential mortgages	12,467,869	18,541,124	1,513,812	1,251,219
Retail lending	12,714,177	19,281,015	9,215,741	1,284,030
Total	**14,096,923**	**22,470,640**	**16,671,546**	**2,742,775**
out of which Stage 3				
Corporate lending	425,186	958,909	357,832	198,432
Small business lending	41,191	130,110	22,923	6,252
Consumer lending	612	1,183	385,835	249
Residential mortgages	309,524	568,712	163,619	107,852
Retail lending	351,328	700,006	572,376	114,353
Total	**776,513**	**1,658,915**	**930,208**	**312,785**

December 31, 2017

	Over - collateralized exposure	Collaterals & Guarantees	Under- collateralized exposure	Collaterals & Guarantees
Corporate lending	2,107,367	4,570,118	8,160,661	2,822,937
Small business lending	278,941	866,138	399,109	37,922
Consumer lending	21,390	48,828	6,961,581	8,219
Residential mortgages	11,527,867	17,316,318	1,961,634	1,635,390
Retail lending	11,828,198	18,231,285	9,322,324	1,681,531
Total	**13,935,565**	**22,801,403**	**17,482,985**	**4,504,469**

(Amounts in thousands RON)

41. Risk management (continued)

41.1 Credit risk (continued)

Analysis of collateral coverage for finance lease receivables

December 31, 2018

	Over - collateralized exposure	Collaterals & Guarantees	Under-collateralized exposure	Collaterals & Guarantees
Non-retail leases	522,463	884,186	103,656	69,219
Small business lending (retail) & residential	192,722	315,371	17,642	2,351
Consumer lending	1,241	2,071	524	381
Retail leases	193,963	317,442	18,166	2,732
Total	**716,426**	**1,201,628**	**121,823**	**71,951**

December 31, 2017

	Over - collateralized exposure	Collaterals & Guarantees	Under-collateralized exposure	Collaterals & Guarantees
Non-retail leases	503,292	751,552	112,379	73,972
Small business lending (retail) & residential	177,254	279,012	25,455	2,862
Consumer lending	2,435	3,901	545	399
Retail leases	179,688	282,913	26,000	3,261
Total	**682,981**	**1,034,465**	**138,379**	**77,233**

(Amounts in thousands RON)

41. Risk management (continued)

41.1 Credit risk (continued)

Rating analysis of loans

Group

Retail lending

	December 31, 2018					December 31, 2017
	Stage 1	Stage 2	Stage 3	POCI	Total	**Total**
Gross carrying amount						
Internal rating grade						
Very good grade	11,315,980	1,798,464	-	-	13,114,444	12,208,440
Good grade	2,535,987	2,075,856	-	-	4,611,843	4,666,765
Standard grade	897,902	1,608,026	-	-	2,505,928	2,461,167
Sub-standard grade	448	736,417	-	12,367	749,233	800,459
Non- performing	-	-	991,156	11,283	1,002,439	1,065,378
(out of which) Individual assessment	-	-	94,300	-	94,300	135,866
Not rated internally	657,488	20,788	-	-	678,276	593,884
Total	15,407,806	6,239,551	991,156	23,650	22,662,163	21,796,093
Less allowance	(161,474)	(276,981)	(680,251)	(3,648)	(1,122,354)	(968,400)
Net Carying amount	**15,246,332**	**5,962,569**	**310,905**	**20,002**	**21,539,809**	**20,827,693**

Non-Retail lending

	December 31, 2018					December 31, 2017
	Stage 1	Stage 2	Stage 3	POCI	Total	**Total**
Gross carrying amount						
Internal rating grade						
Very good grade	443,128	-	-	-	443,128	260,747
Good grade	3,607,759	70,072	-	-	3,677,831	4,289,562
Standard grade	2,932,387	300,037	-	-	3,232,425	3,050,016
Sub-standard grade	55,616	706,836	-	5,294	767,747	1,040,802
Non- performing	-	-	734,234	49,960	784,195	1,568,276
(out of which) Individual assessment	-	-	589,897	48,409	638,306	1,301,522
Not rated internally	5,759	3,189	-	-	8,948	83,059
Total	7,044,650	1,080,135	734,234	55,255	8,914,274	10,292,462
Less allowance	(80,320)	(115,466)	(613,015)	(42,006)	(850,807)	(1,511,734)
Net Carying amount	**6,964,331**	**964,668**	**121,219**	**13,249**	**8,063,467**	**8,780,729**

Total

	December 31, 2018					December 31, 2017
	Stage 1	Stage 2	Stage 3	POCI	Total	**Total**
Gross carrying amount						
Internal rating grade						
Very good grade	11,759,108	1,798,464	-	-	13,557,572	12,469,187
Good grade	6,143,746	2,145,929	-	-	8,289,675	8,956,327
Standard grade	3,830,290	1,908,063	-	-	5,738,353	5,511,183
Sub-standard grade	56,064	1,443,254	-	17,661	1,516,979	1,841,261
Non- performing	-	-	1,725,391	61,244	1,786,634	2,633,654
(out of which) Individual assessment	-	-	684,198	48,409	732,607	1,437,388
Not rated internally	663,247	23,977	-	-	687,224	676,943
Total	22,452,456	7,319,685	1,725,391	78,905	31,576,437	32,088,555
Less allowance	(241,793)	(392,448)	(1,293,266)	(45,653)	(1,973,161)	(2,480,133)
Net Carying amount	**22,210,663**	**6,927,238**	**432,124**	**33,252**	**29,603,276**	**29,608,422**

(Amounts in thousands RON)

41. Risk management (continued)

41.1 Credit risk (continued)

Rating analysis of loans (continued)

Bank	Retail lending					
	December 31, 2018					December 31, 2017
	Stage 1	Stage 2	Stage 3	POCI	Total	**Total**
Gross carrying amount						
Internal rating grade						
Very good grade	11,315,980	1,798,464	-	-	13,114,444	12,208,440
Good grade	2,535,987	2,075,856	-	-	4,611,843	4,666,765
Standard grade	897,902	1,608,026	-	-	2,505,928	2,461,167
Sub-standard grade	448	735,646	-	12,367	748,462	800,459
Non- performing	-	-	912,624	11,283	923,908	989,998
(out of which) Individual assessment	-	-	94,300	-	94,300	135,866
Not rated internally	23,944	1,389	-	-	25,334	23,694
Total	14,774,262	6,219,381	912,624	23,650	21,929,918	21,150,523
Less allowance	(142,803)	(267,941)	(613,505)	(3,648)	(1,027,898)	(896,425)
Net Carying amount	**14,631,459**	**5,951,440**	**299,119**	**20,002**	**20,902,021**	**20,254,098**

	Non-Retail lending					
	December 31, 2018					December 31, 2017
	Stage 1	Stage 2	Stage 3	POCI	Total	**Total**
Gross carrying amount						
Internal rating grade						
Very good grade	443,128	-	-	-	443,128	260,747
Good grade	3,631,171	69,582	-	-	3,700,752	4,270,314
Standard grade	2,858,780	287,377	-	-	3,146,158	3,048,433
Sub-standard grade	55,616	697,557	-	5,294	758,468	1,037,285
Non- performing	-	-	732,852	49,960	782,812	1,568,189
(out of which) Individual assessment	-	-	589,897	48,409	638,306	1,301,522
Not rated internally	7,233	-	-	-	7,233	83,059
Total	6,995,928	1,054,516	732,852	55,255	8,838,551	10,268,027
Less allowance	(79,739)	(113,335)	(612,150)	(42,006)	(847,229)	(1,510,201)
Net Carying amount	**6,916,189**	**941,182**	**120,702**	**13,249**	**7,991,322**	**8,757,827**

	Total					
	December 31, 2018					December 31, 2017
	Stage 1	Stage 2	Stage 3	POCI	Total	**Total**
Gross carrying amount						
Internal rating grade						
Very good grade	11,759,108	1,798,464	-	-	13,557,572	12,469,187
Good grade	6,167,158	2,145,438	-	-	8,312,596	8,937,079
Standard grade	3,756,683	1,895,403	-	-	5,652,086	5,509,600
Sub-standard grade	56,064	1,433,203	-	17,661	1,506,929	1,837,744
Non- performing	-	-	1,645,476	61,244	1,706,720	2,558,187
(out of which) Individual assessment	-	-	684,198	48,409	732,607	1,437,388
Not rated internally	31,177	1,389	-	-	32,567	106,753
Total	21,770,191	7,273,898	1,645,476	78,905	30,768,470	31,418,550
Less allowance	(222,542)	(381,276)	(1,225,656)	(45,653)	(1,875,127)	(2,406,625)
Net Carying amount	**21,547,648**	**6,892,622**	**419,821**	**33,252**	**28,893,343**	**29,011,925**

(Amounts in thousands RON)

41. Risk management (continued)

41.1 Credit risk (continued)

Rating analysis of Finance Lease receivables:

	Retail				
	December 31, 2018				December 31, 2017
	Stage 1	Stage 2	Stage 3	Total	Total
Gross carrying amount					
Not rated internally	175,556	21,438	20,122	217,116	205,688
Total	175,556	21,438	20,122	217,116	205,688
Less allowance	(560)	(1,133)	(15,945)	(17,637)	(23,162)
Net Carying amount	**174,997**	**20,305**	**4,177**	**199,479**	**182,526**

	Non-Retail				
	December 31, 2018				December 31, 2017
	Stage 1	Stage 2	Stage 3	Total	Total
Gross carrying amount					
Internal rating grade					
Good grade	121,328	4,184	53	125,564	85,615
Standard grade	280,008	95,420	470	375,897	364,841
Sub-standard grade	-	66,621	535	67,156	76,609
Non- performing	-	-	49,654	49,654	74,376
Not rated internally	-	2,861	-	2,861	14,231
Total	401,336	169,085	50,711	621,131	615,672
Less allowance	(2,596)	(14,417)	(42,585)	(59,598)	(70,429)
Net Carying amount	**398,739**	**154,668**	**8,125**	**561,533**	**545,242**

	Total				
	December 31, 2018				December 31, 2017
	Stage 1	Stage 2	Stage 3	Total	Total
Gross carrying amount					
Internal rating grade					
Good grade	121,328	4,184	53	125,564	85,615
Standard grade	280,008	95,420	470	375,897	364,841
Sub-standard grade	-	66,621	535	67,156	76,609
Non- performing	-	-	49,654	49,654	74,376
Not rated internally	175,556	24,298	20,122	219,976	219,919
Total	576,892	190,522	70,833	838,247	821,360
Less allowance	(3,156)	(15,549)	(58,530)	(77,235)	(93,591)
Net Carying amount	**573,736**	**174,973**	**12,302**	**761,012**	**727,768**

Guarantees and other credit commitments

Guarantees and letters of credit

The Group and Bank issues guarantees and letters of credit for its customers. The primary purpose of letters of credit is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group and Bank will make payments in the event that a customer cannot meet its obligations (delivery of goods, documents submitting, etc) to third parties with which it entered previously into a contractual relationship, carry a similar credit risk as loans.

The market and credit risks on these financial instruments, as well as the operational risk are similar to those arising from granting of loans. In the event of a claim on the Group and Bank as a result of a customer's default on a guarantee these instruments also present a degree of liquidity risk to the Group and Bank.

(Amounts in thousands RON)

41. Risk management (continued)

41.1 Credit risk (continued)

Credit related commitments

Credit commitments represent unused amounts of approved credit facilities.

The Group and Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. The total outstanding contractual amount of commitments does not necessarily represent future cash requirements, since many of these commitments will expire or be terminated without being funded.

	Group		Bank	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Letters of guarantee granted	5,308,124	5,257,706	5,323,714	5,291,373
Financing commitments granted	3,693,281	5,395,987	3,267,552	4,997,338
Total commitments granted	**9,001,404**	**10,653,693**	**8,591,265**	**10,288,711**
Letters of guarantee received	13,656,401	15,450,515	13,656,401	15,450,515
Financing commitments received	699,585	698,955	699,585	698,955
Total commitments received	**14,355,986**	**16,149,470**	**14,355,986**	**16,149,470**

41.2 Market risk

Market risks are the risks of losses arising from unfavorable changes in market parameters of financial instruments (exchange rates, interest rates, securities' prices, commodities etc) and might be incurred both by the trading book transactions and by the banking book positions.

The management of market risks is a continuous process, whose primary aim is to identify and measure the market risks induced by the business activities undergone by the entity.

Trading Book related market risks

The trading business model is mainly driven by the clients' needs and comprises bonds issued by Romanian Government (firm or reversible transactions), forward and swap deals on foreign exchange or interest rate, as well as options on different underlyings (foreign exchange, interest rates and equities).

Although the trading book portfolio generates a small portion of the Bank's entire exposure to market risks, namely interest rate risk and foreign exchange risk, it is monitored separately from the banking book portfolio. The identified risks are further reported to the bank's management and to the Group, ensuring timely distribution of accurate information for decision-making processes.

The risk awareness related to the trading book activity is embraced by all actors pertaining to the Financial Markets Perimeter, several sets of controls, some of them with daily frequency, are undertaken within each unit. The functional independence conferred to the risk line from the business line, translated in an independent follow-up of risks conducted at the Market Risk Department level, guarantees a fair, unbiased picture of BRD's exposure to traded market risks.

41. Risk management (continued)

41.2 Market risk (continued)

The foundation of an efficient management framework addressing market risks relies on the main principles listed below:

- frequent update of the risk management framework, to comply with regulatory requisites, permanently adapted to market evolutions and internal changes;
- ongoing improvement of the market risk practice, aligned with the best market practices;
- validation of valuation techniques used to calculate risks metrics and results;
- defining risk measurement models and provisions for the market risks assumed (reserves);
- authorization of various market risk limits, consistent with the stated market risk appetite;
- approval of the instruments allowed for trading (new products or significant changes);
- involvement in designing the functionalities of the IT systems, data flows and operational procedures;
- monitoring and analyzing exposures and limits compliance, periodical dissemination of essential data mirroring the bank's exposure to market risks to the management bodies.

On an annual basis, the market risk appetite is approved by the Board of Directors, being aligned with the business strategy. The top-down approach transposes this high level indicator into limits, accessible to middle management and executive functions, calibrated on different measurement types (nominal, sensitivity, stress test results, VaR and SVaR levels). To properly support day to day banking activities a daily report, presenting all the market risk indicators, is delivered to the personnel acting in the Financial Markets Perimeter, to the management of Risk Department and to the SG Group. The process of monitoring the limit compliance blends together the daily metrics report with the monthly analysis of the trading book activitity, and the quarterly summaries submitted to the General Management.

The assesment process of trading book related market risks is designed accordingly with the SG Group's methodology, combining three main risk approaches:

- Trading VAR, accompanied by SVaR;
- Stress test scenarios, based on shocks derived from historical and hypothetical scenarios;
- Complementary indicators (sensitivities, nominal, etc) which decompose the global indicators into specific ones, enabling the identification of risk areas, concentration on products, maturities that might lead to important risks unrevealed by the global risk metrics.

Value at Risk (VAR)

The purpose of VaR is to determine a maximum loss the bank might incur from the trading activity, over a given period of time, with a certain level of confidence. In accordance with the provisions of the EU Regulation no. 575/2013 - Art. 365 (1), BRD daily computes the VaR level for 1-day holding period, based on historical approach over a dynamic window, with a confidence level of 99%.

The relevance of the VaR model is assessed through **back testing**, by comparing the daily trading result with the loss estimated by the model, and is performed with daily frequency, in order to forewarn of the need to recalibrate the computational module or to reconsider the observation period of the market parameters. The model's accuracy is tested by comparing the number of days with negative P&L exceeding the VaR figure with the number of expected overshoots (induced by the model's assumptions). Should a breach occur, an investigation is conducted to identify its root and the event is escaladed to the management body of the Financial Markets' Perimeter.

(Amounts in thousands RON)

41. Risk management (continued)

41.2 Market risk (continued)

No overshooting of the daily VaR by the P&L level occurred during 2017 and 2018.

The VaR model developed in BRD is used for management purposes only and is not transposed into capital requirements.

99% VAR (1 DAY) - KEY FIGURES (IN MEUR)

	Begin of year	End of year	Minimum	Average	Maximum
2017	0.14	0.18	0.06	0.19	0.42
2018	0.09	0.12	0.06	0.21	0.52

Stressed VAR (SVAR)

SVaR estimates a maximum loss from trading activity, for 1-day horizon and with 99% confidence level, as a consequence of adverse market movements associated with a financial crisis. SVaR is computed using the same approach as VaR, the only difference being that, in the case of SVaR, the observation period for the risk factors is fixed to a window of 12 consecutive months marked by extreme market events, according to the provisions of EU Regulation no. 575/2013 - Art. 365 (2).

The appropriateness of the one-year chosen window is assessed by comparing the SVaR level with the VaR level. If the VaR/SVaR ratio exceeds the 90% threshold at least three times during a quarter, the plausibility of the window must be reassessed. The range of daily VaR/SVaR values is analyzed on a weekly basis for signals on the need to review the SVaR period.

99% SVAR (1 DAY) - KEY FIGURES (IN MEUR)

	Begin of year	End of year	Minimum	Average	Maximum
2017	0.80	1.26	0.56	1.33	2.46
2018	1.19	0.98	0.39	0.93	1.84

Stress test assessment

<u>Methodology</u>

The stress test assessment is one of the main pillars of the market risk management framework, being complementary to VaR and compensating the limitation of the historical VaR methodology. While the VaR model considers historical movements of the risk factors occurred in the past, the stress testing environment incubates theoretical hypothesis or market event-specific scenario describing large, abrupt changes of the underlying risk factors on the value of the positions and portfolios. A range of hypothetical models picturing extreme shocks are daily mixed with various historical scenarios, applied for the entire trading book portfolio of the Bank, the most adverse result being retained and compared with an approved limit, derived from the market risk appetite.

(Amounts in thousands RON)

41. Risk management (continued)

41.2 Market risk (continued)

The various stress test scenarios are subject to review and improvement, the accuracy of the assumptions used under the active patterns being regularly monitored. The hypothesis validation aims to certify that the shocks applied are still harsh enough and they model an unlikely event, otherwise timely detecting the necessity to recalibrate them.

The table below presents the result of applying the stress test methodology on the trading book portfolio.

STRESS TEST ASSESSMENT - KEY NEGATIVE FIGURES (IN MEUR)

	Begin of year	End of year	Minimum	Average	Maximum
2017	2.92	4.15	1.42	3.92	7.59
2018	2.99	2.60	1.17	3.14	6.40

Foreign exchange risk

The foreign exchange risk is the risk of loss resulting from changes in exchange rates, monitored for all books. The Group and Bank manages the foreign currency risk by using limits for the open foreign currency positions both by currency and at the level of global foreign currency position.

The table below indicates the currencies to which the Group and Bank had an exposure as at December 31st on its assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the currency rate against RON, with all other variables held constant, on the income statement and equity. A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase. An equivalent decrease in each of the below currencies against RON would have resulted in an equivalent but opposite impact.

The impact below does not contain the impact in income statement.

2018	Group			Bank		
Currency	Change in currency rate %	Effect on profit before tax	Effect on equity	Change in currency rate %	Effect on profit before tax	Effect on equity
EUR	+5	3,969	2,504	+5	3,533	2,504
Other	+5	2,217	(409)	+5	1,707	(409)

2017	Group			Bank		
Currency	Change in currency rate %	Effect on profit before tax	Effect on equity	Change in currency rate %	Effect on profit before tax	Effect on equity
EUR	+5	(116,248)	3,942	+5	(115,278)	1,698
Other	+5	(9,935)	-	+5	(9,962)	-

(Amounts in thousands RON)

41. Risk management (continued)

41.2 Market risk (continued)

The Group and the Bank statement of financial position structure by currency is presented below:

	Group				Bank			
	December 31, 2018				December 31, 2018			
ASSETS	**Total**	**RON**	**EUR**	**Other**	**Total**	**RON**	**EUR**	**Other**
Cash in hand	2,236,045	1,923,331	169,256	143,458	2,236,018	1,923,304	169,256	143,458
Due from Central Bank	3,785,491	2,380,963	1,404,528	-	3,785,491	2,380,963	1,404,528	-
Due from banks	3,316,344	169,002	1,815,606	1,331,736	3,297,915	150,573	1,815,606	1,331,736
Derivatives and other financial instruments held for trading	2,252,463	1,220,873	1,010,978	20,611	2,252,519	1,220,929	1,010,978	20,611
Loans and advances to customers	29,603,276	19,983,296	9,432,020	187,959	28,893,343	19,441,830	9,263,553	187,959
Financial lease receivables	761,012	149,184	611,723	105	-	-	-	-
Financial assets available for sale	-	-	-	-	-	-	-	-
Financial assets at fair value through profit and loss	82,476	41,264	554	40,658	62,598	21,386	554	40,658
Financial assets at fair value through other comprehensive income	12,059,561	9,610,165	2,241,323	208,073	12,059,561	9,610,165	2,241,323	208,073
Goodwill	50,130	50,130	-	-	50,130	50,130	-	-
Current tax assets	10,312	10,312	-	-	10,312	10,312	-	-
Deferred tax asset	113,480	113,480	-	-	107,392	107,392	-	-
Non current assets and other assets	1,363,859	1,308,892	12,087	42,881	1,204,498	1,150,584	12,086	41,828
Total assets	**55,719,369**	**37,045,811**	**16,698,075**	**1,975,481**	**54,089,354**	**36,196,295**	**15,917,886**	**1,975,173**
LIABILITIES								
Due to banks	297,817	143,649	109,387	44,781	297,817	143,649	109,387	44,781
Due to customers	45,216,995	28,000,013	14,819,624	2,397,357	45,315,556	28,081,363	14,836,821	2,397,372
Debt issued and borrowed funds	1,306,638	524,212	782,426	-	16,582	16,355	227	-
Subordinated debt	-	-	-	-	-	-	-	-
Derivative financial instruments	341,061	263,930	28,178	48,953	341,061	263,930	28,178	48,953
Current tax liability	2,305	2,305	-	-	-	-	-	-
Deffered tax liability	-	-	-	-	-	-	-	-
Other liabilities	897,126	655,443	212,473	29,210	790,929	549,246	212,473	29,210
Shareholders' equity	7,657,427	7,657,427	-	-	7,327,409	7,327,409	-	-
Total liabilities and shareholders' equity	**55,719,369**	**37,246,979**	**15,952,088**	**2,520,301**	**54,089,354**	**36,381,952**	**15,187,086**	**2,520,316**
Position		**(201,167)**	**745,987**	**(544,821)**		**(185,657)**	**730,800**	**(545,144)**
Position off BS		77,464	(666,614)	589,150		80,861	(660,151)	579,290
Position total		**(123,702)**	**79,373**	**44,330**		**(104,796)**	**70,649**	**34,147**

(Amounts in thousands RON)

41. Risk management (continued)

41.2 Market risk (continued)

	Group				Bank			
	December 31, 2017				December 31, 2017			
ASSETS	**Total**	**RON**	**EUR**	**Other**	**Total**	**RON**	**EUR**	**Other**
Cash in hand	1,924,214	1,493,170	276,236	154,808	1,924,188	1,493,144	276,236	154,808
Due from Central Bank	5,757,953	4,338,198	1,419,755	-	5,757,953	4,338,198	1,419,755	-
Due from banks	2,549,512	337,403	1,178,332	1,033,777	2,530,468	318,359	1,178,332	1,033,777
Derivatives and other financial instruments held for tradin	637,686	273,730	363,956	-	637,689	273,733	363,956	-
Loans and advances to customers	29,608,422	18,693,027	10,838,681	76,714	29,011,926	18,196,248	10,738,964	76,714
Financial lease receivables	727,768	181,915	544,587	1,266	-	-	-	-
Financial assets available for sale	12,135,373	9,589,492	2,305,325	240,556	12,113,692	9,567,812	2,305,324	240,556
Goodwill	151,860	123,318	-	28,542	158,594	130,052	-	28,542
Current tax assets	50,130	50,130	-	-	50,130	50,130	-	-
Deferred tax asset	112,536	112,536	-	-	109,484	109,484	-	-
Non current assets and other assets	1,271,938	1,242,208	29,559	171	1,196,801	1,167,070	29,559	171
Total assets	**54,927,391**	**36,435,127**	**16,956,431**	**1,535,834**	**53,490,925**	**35,644,231**	**16,312,126**	**1,534,568**
LIABILITIES								
Due to banks	885,970	706,600	153,890	25,480	885,970	706,600	153,890	25,480
Due to customers	44,219,686	27,367,713	14,319,638	2,532,335	44,387,308	27,427,209	14,427,752	2,532,348
Debt issued and borrowed funds	1,252,455	468,337	784,118	-	48,530	24,865	23,665	-
Subordinated debt	-	-	-	-	-	-	-	-
Derivative financial instruments	138,044	126,485	11,559	-	138,044	126,485	11,559	-
Current tax liability	103,581	103,581	-	-	102,388	102,388	-	-
Deffered tax liability	955	955	-	-	-	-	-	-
Other liabilities	957,949	710,698	235,333	11,917	900,296	653,045	235,333	11,917
Shareholders' equity	7,368,751	7,368,751	-	-	7,028,387	7,028,387	-	-
Total liabilities and shareholders' equity	**54,927,391**	**36,853,120**	**15,504,538**	**2,569,732**	**53,490,923**	**36,068,979**	**14,852,199**	**2,569,745**
Position		**(417,993)**	**1,451,893**	**(1,033,898)**		**(424,748)**	**1,459,927**	**(1,035,178)**
Position off BS		395,788	(1,471,536)	1,075,748		383,662	(1,460,155)	1,076,494
Position total		**(22,205)**	**(19,643)**	**41,851**		**(41,087)**	**(228)**	**41,317**

(Amounts in thousands RON)

41. Risk management (continued)

41.2 Market risk (continued)

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The main tool used in managing the interest rate risk in banking book is the gap analysis, along with a measure of the balance sheet sensitivity to yield curve shifts. In accordance with the Group's policy, positions are monitored on a regular basis and appropriate strategies are used to ensure positions are maintained within the established limits. The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's and Bank's income statement and equity.

Group December 31, 2018			Bank December 31, 2018		
Change in interest rate (b.p)	Effect on profit before tax	Effect on equity	Change in interest rate (b.p)	Effect on profit before tax	Effect on equity
100	(98,933)	18,140	100	(98,097)	18,140
(100)	98,933	(18,140)	(100)	98,097	(18,140)

December 31, 2017			December 31, 2017		
Change in interest rate (b.p)	Effect on profit before tax	Effect on equity	Change in interest rate (b.p)	Effect on profit before tax	Effect on equity
100	(86,104)	12,040	100	(83,392)	9,970
(100)	84,966	(12,040)	(100)	83,392	(9,970)

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the profit or loss for the year, based on the financial assets and financial liabilities held at 31st December. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets at 31st December considering the effects of the assumed changes in interest rates. The total sensitivity of the income statement and equity is based on the assumption that there are parallel shifts in the yield curve.

The tables below analyse the Group's and the Bank's banking book interest rate risk exposure. The Group's assets and liabilities are included at carrying amount and gaps between outstanding assets and liabilities are determined on the basis of the contractual terms of transactions, models based on clients' historic behaviour patterns, as well as conventional assumptions relating to certain balance sheet items.

(Amounts in thousands RON)

41. Risk management (continued)

41.2 Market risk (continued)

Interest rate risk (continued)

Group

December 31, 2018	0-1 months	1-3 months	3-12 months	1-5 years	Over 5 years	Total
ASSETS						
Cash in hand	74,561	149,068	670,805	1,341,611	-	2,236,045
Due from Central Bank	1,496,732	625,909	368,057	891,418	403,375	3,785,491
Due from banks	1,850,064	949,904	461,365	36,588	18,423	3,316,344
Derivatives and other financial instruments held for trading	1,524,853	62,816	249,952	408,551	6,291	2,252,463
Loans and advances to customers	9,428,478	11,559,567	3,096,936	5,041,647	476,648	29,603,276
Financial lease receivables	26,445	379,794	115,926	238,618	230	761,012
Financial assets available for sale	-	-	-	-	-	-
Financial assets at fair value through profit and loss	40,659	-	-	41,817	-	82,476
Financial assets at fair value through other comprehensive income	(4,013)	1,118,312	1,469,362	3,935,604	5,540,296	12,059,561
Investments in associates and subsidiares	1,415	2,643	11,894	63,438	5,529	84,919
Goodwill	418	836	3,760	20,052	25,065	50,130
Current tax assets	-	10,312	-	-	-	10,312
Deferred tax asset	983	1,965	8,843	47,160	54,529	113,480
Non current assets and other assets	10,440	348,774	166,230	485,199	353,217	1,363,859
Total assets	**14,451,034**	**15,209,899**	**6,623,130**	**12,551,701**	**6,883,604**	**55,719,369**
Liabilities						
Due to banks	227,859	46,639	-	23,320	-	297,817
Due to customers	13,777,993	7,158,727	8,545,397	10,530,298	5,204,580	45,216,995
Debt issued and borrowed funds	78,858	425,768	299,790	494,328	7,895	1,306,638
Subordinated debt	-	-	-	-	-	-
Derivative financial instruments	333,061	5,000	3,000	-	-	341,061
Current tax liability	-	2,305	-	-	-	2,305
Other liabilities	-	897,126	-	-	-	897,126
Total liabilities	**14,417,770**	**8,535,565**	**8,848,187**	**11,047,946**	**5,212,475**	**48,061,942**
Total shareholders' equity	**-**	**-**	**765,743**	**3,062,971**	**3,828,714**	**7,657,427**
Net position	**33,264**	**6,674,334**	**(2,990,799)**	**(1,559,215)**	**(2,157,585)**	

(Amounts in thousands RON)

41. Risk management (continued)

41.2 Market risk (continued)

Interest rate risk (continued)

Group

December 31, 2017	0-1 months	1-3 months	3-12 months	1-5 years	Over 5 years	Total
ASSETS						
Cash in hand	64,165	128,279	577,257	1,154,513	-	1,924,214
Due from Central Bank	2,647,314	154,739	1,778,678	808,517	368,705	5,757,953
Due from banks	1,924,425	466,475	18,294	54,882	18,553	2,482,629
Derivatives and other financial instruments held for trading	154,284	-	-	-	-	154,284
Loans and advances to customers	9,488,191	11,232,922	3,004,668	4,471,332	272,404	28,469,517
Financial lease receivables	28,510	225,382	239,517	233,281	1,078	727,768
Financial assets available for sale	684,406	162,084	1,246,991	5,007,287	5,034,605	12,135,373
Investments in associates and subsidiares	1,265	2,531	11,389	60,744	75,931	151,860
Goodwill	418	836	3,760	20,052	25,064	50,130
Deferred tax asset	938	1,875	8,441	45,015	56,267	112,536
Non current assets and other assets	7,932	335,932	71,390	380,748	475,935	1,271,937
Total assets	**15,001,848**	**12,711,055**	**6,960,385**	**12,236,371**	**6,328,542**	**53,238,201**
Liabilities						
Due to banks	145,067	69,896	-	23,299	-	238,262
Due to customers	14,593,450	7,223,379	10,730,595	7,978,628	3,693,634	44,219,686
Debt issued and borrowed funds	122,485	316,421	293,999	511,154	8,396	1,252,455
Subordinated debt	-	-	-	-	-	-
Derivative financial instruments	138,044	-	-	-	-	138,044
Current tax liability	-	-	103,581	-	-	103,581
Deffered tax liability	8	16	72	381	478	955
Other liabilities	-	957,949	-	-	-	957,949
Total liabilities	**14,999,054**	**8,567,661**	**11,128,247**	**8,513,462**	**3,702,508**	**46,910,932**
Total shareholders' equity	**-**	**-**	**736,875**	**2,947,500**	**3,684,376**	
Net position	**2,794**	**4,143,394**	**(4,904,737)**	**775,409**	**(1,058,342)**	

(Amounts in thousands RON)

41. Risk management (continued)

41.2 Market risk (continued)

Interest rate risk (continued)

Bank

December 31, 2018	0-1 months	1-3 months	3-12 months	1-5 years	Over 5 years	Total
ASSETS						
Cash in hand	74,534	149,068	670,805	1,341,611	-	2,236,018
Due from Central Bank	1,496,732	625,909	368,057	891,418	403,375	3,785,491
Due from banks	1,850,059	949,904	461,365	36,588	-	3,297,915
Derivatives and other financial instruments held for trading	1,524,909	62,816	249,952	408,551	6,291	2,252,519
Loans and advances to customers	9,400,618	11,603,494	3,071,703	4,341,996	475,531	28,893,343
Financial assets available for sale	-	-	-	-	-	-
Financial assets at fair value through profit and loss	40,658	-	-	21,940	-	62,598
Financial assets at fair value through other comprehensive income	(4,013)	1,118,312	1,469,362	3,935,604	5,540,296	12,059,561
Investments in associates and subsidiares	1,322	2,643	11,894	63,438	50,280	129,577
Goodwill	418	836	3,760	20,052	25,065	50,130
Current tax assets	-	10,312	-	-	-	10,312
Deferred tax asset	932	1,864	8,386	44,725	51,485	107,392
Non current assets and other assets	10,294	241,821	121,663	478,300	352,420	1,204,498
Total assets	**14,396,462**	**14,766,979**	**6,436,947**	**11,584,222**	**6,904,744**	**54,089,354**
Liabilities						
Due to banks	227,859	46,639	-	23,320	-	297,817
Due to customers	13,790,548	7,178,447	8,583,907	10,553,074	5,209,580	45,315,556
Debt issued and borrowed funds	429	26	1,227	7,006	7,895	16,582
Subordinated debt	-	-	-	-	-	-
Derivative financial instruments	333,061	5,000	3,000	-	-	341,061
Other liabilities	-	790,929	-	-	-	790,929
Total liabilities	**14,351,896**	**8,021,041**	**8,588,134**	**10,583,399**	**5,217,475**	**46,761,945**
Total shareholders' equity	**-**	**-**	**732,741**	**2,930,964**	**3,663,705**	**7,327,409**
Net position	**44,566**	**6,745,939**	**(2,883,928)**	**(1,930,141)**	**(1,976,436)**	

(Amounts in thousands RON)

41. Risk management (continued)

41.2 Market risk (continued)

Interest rate risk (continued)

Bank December 31, 2017	0-1 months	1-3 months	3-12 months	1-5 years	Over 5 years	Total
ASSETS						
Cash in hand	64,140	128,279	577,257	1,154,512	-	1,924,188
Due from Central Bank	2,647,315	154,739	1,778,678	808,516	368,705	5,757,953
Due from banks	1,923,934	466,475	18,294	54,882	-	2,463,585
Derivatives and other financial instruments held for trading	154,287	-	-	-	-	154,287
Loans and advances to customers	9,490,338	11,271,437	2,984,495	3,855,273	271,477	27,873,020
Financial assets available for sale	684,406	162,084	1,246,991	4,985,606	5,034,605	12,113,692
Investments in associates and subsidiares	1,321	2,643	11,895	63,438	79,297	158,594
Goodwill	417	836	3,760	20,052	25,065	50,130
Deferred tax asset	913	1,825	8,211	43,793	54,742	109,484
Non current assets and other assets	7,843	271,038	70,608	376,580	470,731	1,196,800
Total assets	**14,974,914**	**12,459,356**	**6,700,189**	**11,362,652**	**6,304,622**	**51,801,733**
Liabilities						
Due to banks	145,067	69,896	-	23,299	-	238,262
Due to customers	14,672,892	7,271,028	10,760,138	7,986,617	3,696,633	44,387,308
Debt issued and borrowed funds	3,955	802	6,298	29,079	8,396	48,530
Subordinated debt	-	-	-	-	-	-
Derivative financial instruments	138,044	-	-	-	-	138,044
Deffered tax liability	-	-	-	-	-	-
Other liabilities	-	900,296	-	-	-	900,296
Total liabilities	**14,959,958**	**8,242,022**	**10,766,436**	**8,038,995**	**3,705,029**	**45,712,440**
Total shareholders' equity	**-**	**-**	**702,839**	**2,811,355**	**3,514,194**	**7,028,387**
Net position	**14,956**	**4,217,334**	**(4,769,086)**	**512,302**	**(914,601)**	

41. Risk management (continued)

41.3 Liquidity risk

The liquidity risk is associated either with the difficulty of an enterprise to raise necessary funds in order to meet commitments or with its inability to monetize a financial asset quickly and for an amount close to its fair value.

The Group manages the exposure to the liquidity risk using a specific framework designed to manage it both under normal day-to-day conditions and in the event of a potential liquidity crisis. The liquidity risk management approach starts at the intraday level managing the daily payments flows, forecasting and managing cash flows, and factoring in the access to central bank monetary policy operations and standing facilities. It then covers a longer term perspective, comprising the maturity profile of all assets and liabilities and the funding strategy.

The liquidity risk position, under normal conditions, is measured at consolidated level using the static liquidity gaps indicator which is defined as the difference between the expected future inflows and outflows related to the current transactions (no new business included), determined for each time bucket and currency based on the contractual maturity of the transactions, considering also embedded options (e.g. prepayment for loans, term deposits) or, for non-maturing products (the main ones being: current accounts, fixed assets, other assets, equity, other liabilities), based on a maturity modelled using historical client behaviour or a conventional maturity. For each budgeting and planning exercise, the future funding needs are assessed starting from the actual liquidity position and budgeted evolution of assets and liabilities. When a deficit is expected, funding solutions are assessed and appropriate actions are planned.

The Group performs liquidity risk stress tests on a quarterly basis in order to identify and quantify its exposures to possible liquidity stresses, analyzing potential impacts on the cash flows and liquidity position. The Group is considering 3 liquidity crisis scenarios: specific to the Group (idiosyncratic), systemic and a combination of both. The Group maintains a liquidity buffer of unencumbered, high quality liquid assets as an insurance against a range of liquidity stress scenarios. A contingency funding plan is designed to protect the stakeholders' interests and to ensure positive outcome in the event of a liquidity crisis.

The maturity structure of the Group's and the Bank's assets and liabilities as of December 31, 2018 and 2017 is as follows:

(Amounts in thousands RON)

41. Risk management (continued)

41.3 Liquidity risk (continued)

Group

December 31, 2018	Total	0-1 months	1-3 months	3-12 months	1-5 years	Over 5 years
ASSETS						
Cash in hand	2,236,045	74,561	149,068	670,805	1,341,611	-
Due from Central Bank	3,785,491	1,123,758	173,609	639,039	1,346,958	502,127
Due from banks	3,316,344	1,850,534	949,904	461,365	36,588	17,953
Derivatives and other financial instruments held for trading	2,252,463	2,190,656	61,807	-	-	-
Loans and advances to customers	29,603,276	858,164	835,214	3,866,554	12,671,569	11,371,775
Financial lease receivables	761,012	26,071	43,388	209,652	478,978	2,923
Financial assets available for sale	-	-	-	-	-	-
Financial assets at fair value through profit and loss	82,476	-	-	-	82,476	-
Financial assets at fair value through other comprehensive income	12,059,561	12,059,561	-	-	-	-
Investments in associates and subsidiares	84,919	1,416	2,643	11,894	22,779	46,187
Goodwill	50,130	418	836	3,760	20,051	25,065
Current tax assets	10,312	-	10,312	-	-	-
Deferred tax asset	113,480	983	1,965	8,843	47,160	54,529
Non current assets and other assets	1,363,859	10,438	348,774	166,230	485,200	353,217
Total assets	**55,719,369**	**18,196,560**	**2,577,519**	**6,038,142**	**16,533,370**	**12,373,776**
LIABILITIES						
Due to banks	297,817	227,859	-	23,320	46,639	-
Due to customers	45,216,995	9,393,328	4,635,058	7,990,532	16,929,598	6,268,479
Debt issued and borrowed funds	1,306,638	38,441	114,159	402,973	743,170	7,895
Subordinated debt	-	-	-	-	-	-
Derivative financial instruments	341,061	333,061	5,000	3,000	-	-
Current tax liability	2,305	-	2,305	-	-	-
Deffered tax liability	-	-	-	-	-	-
Other liabilities	897,126	-	897,126	-	-	-
Total liabilities	**48,061,942**	**9,992,688**	**5,653,649**	**8,419,824**	**17,719,407**	**6,276,374**
Total shareholders equity	**7,657,427**	**-**	**-**	**765,743**	**3,062,971**	**3,828,714**
Gap		**8,203,873**	**(3,076,130)**	**(3,147,425)**	**(4,249,007)**	**2,268,689**
Cumulative gap		**8,203,873**	**5,127,743**	**1,980,318**	**(2,268,689)**	**0**

(Amounts in thousands RON)

41. Risk management (continued)

41.3 Liquidity risk (continued)

Group

December 31, 2017	Total	0-1 months	1-3 months	3-12 months	1-5 years	Over 5 years
ASSETS						
Cash in hand	1,924,214	64,165	128,279	577,257	1,154,513	-
Due from Central Bank	5,757,953	2,647,314	154,739	1,778,678	808,517	368,705
Due from banks	2,549,512	1,991,308	466,475	18,294	54,882	18,553
Derivatives and other financial instruments held for trading	637,686	637,686	-	-	-	-
Loans and advances to customers	29,608,422	1,760,636	794,632	3,782,689	12,561,988	10,708,477
Financial lease receivables	727,768	28,038	54,136	202,970	441,337	1,287
Financial assets available for sale	12,135,373	12,053,643	-	-	81,730	-
Investments in associates and subsidiares	151,860	1,266	2,531	11,389	60,744	75,930
Goodwill	50,130	417	836	3,760	20,052	25,065
Deferred tax asset	112,536	938	1,876	8,440	45,015	56,267
Non current assets and other assets	1,271,937	7,932	335,932	71,390	380,748	475,935
Total assets	**54,927,391**	**19,193,343**	**1,939,436**	**6,454,867**	**15,609,526**	**11,730,219**
LIABILITIES						
Due to banks	885,970	792,775	-	23,299	69,896	-
Due to customers	44,219,686	7,772,283	3,247,608	8,213,757	17,136,097	7,849,941
Debt issued and borrowed funds	1,252,455	69,004	91,596	387,527	695,932	8,396
Subordinated debt	-	-	-	-	-	-
Derivative financial instruments	138,044	138,044	-	-	-	-
Current tax liability	103,581	-	-	103,581	-	-
Deffered tax liability	955	8	15	72	382	478
Other liabilities	957,949	-	957,949	-	-	-
Shareholders' equity	**47,558,640**	**8,772,114**	**4,297,168**	**8,728,236**	**17,902,307**	**7,858,815**
Total shareholders equity	**7,368,751**	**-**	**-**	**736,875**	**2,947,500**	**3,684,376**
Gap		**10,421,229**	**(2,357,732)**	**(3,010,244)**	**(5,240,281)**	**187,028**
Cumulative gap		**10,421,229**	**8,063,497**	**5,053,253**	**(187,028)**	**(0)**

(Amounts in thousands RON)

41. Risk management (continued)

41.3 Liquidity risk (continued)

Bank

December 31, 2018	Total	0-1 months	1-3 months	3-12 months	1-5 years	Over 5 years
ASSETS						
Cash in hand	2,236,018	74,534	149,068	670,805	1,341,611	-
Due from Central Bank	3,785,491	1,123,758	173,609	639,039	1,346,958	502,127
Due from banks	3,297,915	1,850,058	949,904	461,365	36,588	-
Derivatives and other financial instruments held for trading	2,252,519	2,190,712	61,807	-	-	-
Loans and advances to customers	28,893,343	828,925	873,161	3,848,615	11,971,985	11,370,658
Financial lease receivables	-	-	-	-	-	-
Financial assets available for sale	-	-	-	-	-	-
Financial assets at fair value through profit and loss	62,598	0	-	-	62,598	-
Financial assets at fair value through other comprehensive income	12,059,561	12,059,561	-	-	-	-
Investments in associates and subsidiares	129,577	1,322	2,643	11,894	22,780	90,938
Goodwill	50,130	418	836	3,760	20,052	25,065
Current tax assets	10,312	-	10,312	-	-	-
Deferred tax asset	107,392	932	1,864	8,386	44,725	51,485
Non current assets and other assets	1,204,498	10,294	241,821	121,663	478,300	352,420
Total assets	**54,089,354**	**18,140,514**	**2,465,024**	**5,765,527**	**15,325,597**	**12,392,693**
LIABILITIES						
Due to banks	297,817	227,859	-	23,320	46,639	-
Due to customers	45,315,556	9,433,975	4,655,297	8,011,136	16,941,669	6,273,479
Debt issued and borrowed funds	16,582	429	26	1,227	7,006	7,895
Subordinated debt	-	-	-	-	-	-
Derivative financial instruments	341,061	331,548	5,230	3,203	1,080	-
Current tax liability	-	-	-	-	-	-
Deffered tax liability	-	-	-	-	-	-
Other liabilities	790,929	-	790,929	-	-	-
Total liabilities	**46,761,945**	**9,993,810**	**5,451,482**	**8,038,885**	**16,996,394**	**6,281,374**
Total shareholders equity	**7,327,409**	**-**	**-**	**732,741**	**2,930,964**	**3,663,705**
Gap		**8,146,704**	**(2,986,458)**	**(3,006,099)**	**(4,601,762)**	**2,447,614**
Cumulative gap		**8,146,704**	**5,160,246**	**2,154,147**	**(2,447,615)**	**(0)**

(Amounts in thousands RON)

41. Risk management (continued)

41.3 Liquidity risk (continued)

Bank

December 31, 2017	Total	0-1 months	1-3 months	3-12 months	1-5 years	Over 5 years
ASSETS						
Cash in hand	1,924,188	64,140	128,279	577,256	1,154,513	-
Due from Central Bank	5,757,953	2,647,315	154,739	1,778,677	808,517	368,705
Due from banks	2,530,468	1,990,817	466,475	18,294	54,882	-
Derivatives and other financial instruments held for trading	637,689	637,689	-	-	-	-
Loans and advances to customers	29,011,925	1,765,325	796,945	3,812,187	11,929,925	10,707,543
Financial lease receivables	-					
Financial assets available for sale	12,113,692	12,031,962	-	-	81,730	-
Investments in associates and subsidiares	158,594	1,321	2,643	11,895	63,438	79,297
Goodwill	50,130	417	836	3,760	20,052	25,065
Deferred tax asset	109,484	913	1,824	8,211	43,794	54,742
Non current assets and other assets	1,196,800	7,845	271,039	70,609	376,581	470,726
Total assets	**53,490,923**	**19,147,744**	**1,822,780**	**6,280,889**	**14,533,432**	**11,706,078**
LIABILITIES						
Due to banks	885,970	792,775	-	23,299	69,896	-
Due to customers	44,387,308	7,851,723	3,295,258	8,243,300	17,144,086	7,852,941
Debt issued and borrowed funds	48,530	3,565	23,355	2,799	10,415	8,396
Subordinated debt	-	-	-	-	-	-
Derivative financial instruments	138,044	138,044	-	-	-	-
Current tax liability	102,388	-	-	102,388	-	-
Deffered tax liability	-	-	-	-	-	-
Other liabilities	900,296	-	900,296	-	-	-
Total liabilities	**46,462,536**	**8,786,107**	**4,218,909**	**8,371,786**	**17,224,397**	**7,861,337**
Total shareholders equity	**7,028,387**	**-**	**-**	**702,838**	**2,811,355**	**3,514,194**
Gap		**10,361,637**	**(2,396,129)**	**(2,793,735)**	**(5,502,320)**	**330,547**
Cumulative gap		**10,361,637**	**7,965,508**	**5,171,773**	**(330,547)**	**(0)**

(Amounts in thousands RON)

41. Risk management (continued)

41.3 Liquidity risk (continued)

Future undiscounted cash flows

The tables below summarize the maturity profile of the financial liabilities based on contractual undiscounted repayment obligations.

Group

December 31, 2018	Total	0-1 months	1-3 months	3-12 months	1-5 years	Over 5 years
LIABILITIES						
Due to banks	302,603	228,119	237	25,043	49,203	-
Due to customers	45,516,292	9,433,228	4,675,309	8,131,480	16,995,889	6,280,387
Debt issued and borrowed funds	1,333,155	40,238	116,109	407,407	746,766	22,635
Subordinated debt	-	-	-	-	-	-
Derivative financial instruments	96,897	(9,071)	52,290	4,708	40,506	8,464
Current tax liability	2,305	-	-	2,305	-	-
Deffered tax liability	-	-	-	-	-	-
Other liabilities except for fair values of derivatives	897,126	-	897,126	-	-	-
Letters of guarantee granted	5,308,124	5,308,124	-	-	-	-
Total liabilities	**53,456,502**	**15,000,637**	**5,741,071**	**8,570,944**	**17,832,364**	**6,311,486**

Group

December 31, 2017	Total	0-1 months	1-3 months	3-12 months	1-5 years	Over 5 years	Without defined maturity
LIABILITIES							
Due to banks	886,062	792,867	-	23,299	69,896	-	-
Due to customers	44,570,224	7,823,503	3,295,288	8,370,205	17,216,550	7,864,678	-
Debt issued and borrowed funds	1,268,688	70,231	93,841	394,441	701,779	8,396	-
Subordinated debt	-	-	-	-	-	-	-
Derivative financial instruments	66,635	3,444	1,858	15,617	45,538	177	-
Current tax liability	103,581	-	-	103,581	-	-	-
Deffered tax liability	955	-	-	-	-	-	955
Other liabilities except for fair values of derivatives	957,949	-	957,949	-	-	-	-
Letters of guarantee granted	5,257,706	5,257,706	-	-	-	-	-
Total liabilities	**53,111,800**	**13,947,751**	**4,348,936**	**8,907,143**	**18,033,763**	**7,873,251**	**955**

(Amounts in thousands RON)

41. Risk management (continued)

41.3 Liquidity risk (continued)

Future undiscounted cash flows (continued)

Bank

December 31, 2018	Total	0-1 months	1-3 months	3-12 months	1-5 years	Over 5 years
LIABILITIES						
Due to banks	302,603	228,119	237	25,043	49,203	-
Due to customers	45,620,462	9,473,663	4,695,733	8,152,084	17,011,930	6,287,052
Debt issued and borrowed funds	8,688	430	26	1,227	7,006	-
Subordinated debt	-	-	-	-	-	-
Derivative financial instruments	96,841	(9,102)	52,290	4,709	40,497	8,447
Current tax liability	-	-	-	-	-	-
Deffered tax liability	-	-	-	-	-	-
Other liabilities except for fair values of derivatives	790,929	-	790,929	-	-	-
Letters of guarantee granted	5,323,714	5,323,714	-	-	-	-
Total liabilities	**52,143,236**	**15,016,824**	**5,539,215**	**8,183,063**	**17,108,636**	**6,295,499**

Bank

December 31, 2017	Total	0-1 months	1-3 months	3-12 months	1-5 years	Over 5 years
LIABILITIES						
Due to banks	886,062	792,867	-	23,299	69,896	-
Due to customers	36,899,848	7,902,942	3,353,911	8,399,748	17,227,157	16,090
Debt issued and borrowed funds	40,135	3,566	23,355	2,799	10,415	-
Subordinated debt	-	-	-	-	-	-
Derivative financial instruments	66,635	3,445	1,858	15,617	45,538	177
Current tax liability	102,388	-	102,388	-	-	-
Deffered tax liability	-	-	-	-	-	-
Other liabilities except for fair values of derivatives	900,296	-	900,296	-	-	-
Letters of guarantee granted	5,291,373	5,291,373	-	-	-	-
Total liabilities	**44,186,737**	**13,994,193**	**4,381,808**	**8,441,463**	**17,353,006**	**16,267**

41. Risk management (continued)

41.4 Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes the following sub-categories: legal risk, risk related to information technology and model risk, but excludes the strategic and reputational risks.
The Group's operational risk management system was developed and strengthened over the years and allows:

- identification, analysis and evaluation of operational risks, their control and follow up
- Applying measures meant to improve and strengthen the control framework, in order to prevent/reduce operational risk losses
- Ensuring adequate capital requirements for covering exposure to operational risks

The day to day management of operational risk is the responsibility of employees from each business unit. The personnel have to be always aware of their responsibilities in connection with identification and reporting of operational risks and other duties which may arise in relation with the management of operational risks.
Operational risk management tools put in place at BRD are:

- Historical operational risk losses database
- Key risk indicators (KRI)
- Risk and control self-assessment process (RCSA)
- Scenario analysis
- Managerial Supervision of processes (MS)
- Fraud identification and prevention system
- Committee for New Products, which ensures the assessment of operational risks associated with new products for banks' clients, outsourcing of activities and significant modifications of the existing products offered to the bank's clients
- Crisis management and business continuity plan

In 2018, the Group operational risk strategy focused on the following axes:

- Enhancement of operational risk culture through management awareness and staff training
- Review New Product Committee Process
- Involvement in review of bank processes, by coordinating the assessment of risk and controls
- Design an Escalation Procedure for Major Incidents according PSD2 (EU Payment Service Directive)
- Review of Operational Risk Management tools (KRIs, RCSA) having a process-based approach
- Conduct the business impact analysis (BIA) considering the crisis scenarios relevant for BRD and update of the back-up solutions meant to ensure the business continuity, based on a methodology compliant with the international standards in the field; monitoring of the business continuity and crisis management tests and exercises scheduled as per the yearly calendar and optimization of the business continuity and crisis management mechanisms; strengthen the awareness / staff training programs on the specific topics, to respond as efficiently as possible to unexpected crisis events and to minimize their impact on the bank's clients, staff, activities and assets; systematic update of the BRD's business continuity strategy to the regulatory and SG group's requirements in the area
- Revise and optimise internal controls to prevent frauds in both retail and non-retail activities

(Amounts in thousands RON)

42. Capital management

Starting 1st January 2014 BRD Group calculates the capital requirements in accordance with Basel 3 principles, implemented in the European Union law by the capital Directive (CRD IV - 36/2013) , Regulation (CRR – 575/2013), technical regulatory standards and technical implementation standards issued by the European Banking Authority.

Locally, the European requirements are adopted through National Bank of Romania (NBR) prudential regulations for credit institutions and investment firms: OUG 99/2006 on credit institutions and capital adequacy and NBR Regulation no. 5/2013 regarding prudential requirements.

Please find below a summary of the capital requirements indicators in million RON:

	Group		Bank	
	2018	**2017**	**2018**	**2017**
Eligible CET1	*6,052*	*6,117*	*5,785*	*5,824*
Eligible CET1 after adjustments	*6,055*	*6,142*	*5,781*	*5,845*
Total Tier 1 capital	5,543	5,673	5,271	5,339
Total Tier 2 capital	-	-	-	-
TOTAL OWN FUNDS	**5,543**	**5,673**	**5,271**	**5,339**
Total capital requirement	**2,278**	**2,258**	**2,156**	**2,162**
Credit risk (including counterparty risk)	25,706	26,123	24,244	24,971
Market risk	263	164	264	164
Operational risk	2,328	1,866	2,272	1,822
CVA risk	172	66	172	66
Total risk exposure amount	**28,470**	**28,219**	**26,951**	**27,023**
Regulatory CAR	19.47%	20.10%	19.56%	19.76%
Tier 1 ratio	19.47%	20.10%	19.56%	19.76%

Group's and Bank's own funds comprises Tier 1 capital. As at December 31, 2018 and December 31, 2017 the Bank has no Tier 2 capital instruments.

Tier 1 capital includes eligible capital, eligible reserves, other comprehensive income less regulatory deductions. The Group and Bank included the profit of the year in the own funds presented above as at December 31, 2017.

The Group and Bank was compliant with the capital adequacy ratios throughout the year.

43. Fair value

Determination of fair value and fair value hierarchy
To determine and disclose the fair value hierarchy of the financial instruments, the Group follows the three-level classification of the inputs to valuation techniques used to measure fair value:

- **Level 1: quoted (unadjusted) prices** in active markets for identical assets or liabilities;

  Level 1 instruments contain the government bonds, priced directly by external counterparties on various dealing platforms (Bloomberg, Reuters etc);

- **Level 2: other inputs** than those quoted princes included within Level 1, **that are observable** for that particular asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices);

  Level 2 instruments include in particular securities that cannot directly be quoted on the market (e.g. corporate bonds) and firm derivates, with standard features and common maturities, whose value can be retrieved or derived from market data;

- **Level 3**: inputs that are not based on observable market data (**unobservable inputs**).

  Level 3 instruments include options traded over-the-counter and other derivatives with specifically-tailored return profiles and/or maturities extended over the normal spectrum;

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

(Amounts in thousands RON)

43. Fair value (continued)

	Group				Bank			
	December 31, 2018				December 31, 2018			
Assets measured at fair value	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets								
Derivative financial instruments								
Interest rate swaps	-	94,603	-	94,603	-	94,603	-	94,603
Currency swaps	-	13,008	-	13,008	-	13,008	-	13,008
Forward foreign exchange contracts	-	2,772	-	2,772	-	2,829	-	2,829
Options	-	-	45,877	45,877	-	-	45,877	45,877
	-	**110,383**	**45,877**	**156,260**	**-**	**110,439**	**45,877**	**156,316**
Financial assets at fair value through other comprehensive income	12,059,561	-	-	12,059,561	12,059,561	-	-	12,059,561
Equity investments (listed)	2,387	-	-	2,387	2,387	-	-	2,387
Equity investments (not listed)	-	-	44,976	44,976	-	-	44,976	44,976
Other securities quoted	35,113	-	-	35,113	15,235	-	-	15,235
Total	**12,097,061**	**-**	**44,976**	**12,142,037**	**12,077,183**	**-**	**44,976**	**12,122,159**
Other financial instruments held for trading	2,096,203	-	-	2,096,203	2,096,203	-	-	2,096,203
Total	**14,193,264**	**110,383**	**90,853**	**14,394,499**	**14,173,386**	**110,439**	**90,853**	**14,374,678**
Assets for which fair value is disclosed								
Cash in hand	2,236,045	-	-	2,236,045	2,236,018	-	-	2,236,018
Due from Central Bank	3,785,491	-	-	3,785,491	3,785,491	-	-	3,785,491
Due from banks	3,316,344	-	-	3,316,344	3,297,915	-	-	3,297,915
Loans and advances to customers	-	-	29,073,626	29,073,626	-	-	29,073,003	29,073,003
Financial lease receivables	-	-	760,754	760,754	-	-	-	-
Total	**9,337,880**	**-**	**29,834,380**	**39,172,260**	**9,319,424**	**-**	**29,073,003**	**38,392,427**

(Amounts in thousands RON)

43. Fair value (continued)

	Group				Bank			
	December 31, 2018				December 31, 2018			
Liabilities measured at fair value	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial liabilities								
Derivative financial instruments								
Interest rate swaps	-	39,294	-	39,294	-	39,294	-	39,294
Currency swaps	-	5,315	-	5,315	-	5,315	-	5,315
Forward foreign exchange contracts	-	13,246	-	13,246	-	13,246	-	13,246
Options	-	-	47,106	47,106	-	-	47,106	47,106
Total	**-**	**57,854**	**47,106**	**104,960**	**-**	**57,854**	**47,106**	**104,960**
Other financial instruments held for trading	236,101	-	-	236,101	236,101	-	-	236,101
Total	**236,101**	**57,854**	**47,106**	**341,061**	**236,101**	**57,854**	**47,106**	**341,061**
Liabilities for which fair value is disclosed								
Due to banks	297,817	0	-	297,817	297,817	-	-	297,817
Due to customers	-	45,220,593	-	45,220,593	-	45,319,161	-	45,319,161
Borrowed funds	-	1,306,638	-	1,306,638		16,582	-	16,582
Total	**297,817**	**46,527,231**	**-**	**46,825,048**	**297,817**	**45,335,743**	**-**	**45,633,560**

(Amounts in thousands RON)

43. Fair value (continued)

	Group				Bank			
	December 31, 2017				December 31, 2017			
Assets measured at fair value	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets								
Derivative financial instruments								
Interest rate swaps	-	78,837	-	78,837	-	78,837	-	78,837
Currency swaps	-	8,452	-	8,452	-	8,455	-	8,455
Forward foreign exchange contracts	-	20,805	-	20,805	-	20,805	-	20,805
Options	-	-	46,190	46,190	-	-	46,190	46,190
	-	**108,094**	**46,190**	**154,284**	**-**	**108,097**	**46,190**	**154,287**
Financial assets available for sale	12,036,572	-	-	12,036,572	12,036,572	-	-	12,036,572
Equity investments (listed)	3,137	-	-	3,137	3,137	-	-	3,137
Equity investments (not listed)	-	-	32,322	32,322	-	-	32,322	32,322
Other securities quoted	63,342	-	-	63,342	41,661	-	-	41,661
	12,103,051	**-**	**32,322**	**12,135,373**	**12,081,370**	**-**	**32,322**	**12,113,692**
Other financial instruments held for trading	483,402	-	-	483,402	483,402	-	-	483,402
Total	**12,586,453**	**108,094**	**78,512**	**12,773,059**	**12,564,772**	**108,097**	**78,512**	**12,751,381**
Assets for which fair value is disclosed								
Cash in hand	1,924,214	-	-	1,924,214	1,924,188	-	-	1,924,188
Due from Central Bank	5,757,953	-	-	5,757,953	5,757,953	-	-	5,757,953
Due from banks	2,549,512	-	-	2,549,512	2,530,468	-	-	2,530,468
Loans and advances to customers	-	-	29,756,635	29,756,635	-	-	29,261,379	29,261,379
Financial lease receivables	-	-	727,965	727,965	-	-	-	-
Total	**10,231,679**	**-**	**30,484,600**	**40,716,279**	**10,212,609**	**-**	**29,261,379**	**39,473,988**

(Amounts in thousands RON)

43. Fair value (continued)

	Group				Bank			
	December 31, 2017				December 31, 2017			
Liabilities measured at fair value	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial liabilities								
Derivative financial instruments								
Interest rate swaps	-	41,127	-	41,127	-	41,127	-	41,127
Currency swaps	-	26,543	-	26,543	-	26,543	-	26,543
Forward foreign exchange contracts	-	3,404	-	3,404	-	3,404	-	3,404
Options	-	-	46,267	46,267	-	-	46,267	46,267
Total	**-**	**71,074**	**46,267**	**117,341**	**-**	**71,074**	**46,267**	**117,341**
Other financial instruments held for trading	20,703	-	-	20,703	20,703	-	-	20,703
Total	**20,703**	**71,074**	**46,267**	**138,044**	**20,703**	**71,074**	**46,267**	**138,044**
Liabilities for which fair value is disclosed								
Due to banks	885,970	-	-	885,970	885,970	-	-	885,970
Due to customers	-	44,220,105	-	44,220,105	-	44,387,729	-	44,387,729
Borrowed funds		1,252,455	-	1,252,455		48,530	-	48,530
Total	**885,970**	**45,472,560**	**-**	**46,358,530**	**885,970**	**44,436,259**	**-**	**45,322,229**

43. Fair value (continued)

Financial instruments measured at fair value

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

Treasury notes are represented by treasury bills and bonds, and are classified as financial assets at fair value through other comprehensive income or financial instruments held for trading measured at fair value through profit and loss, being measured using a valuation technique based on market quotes published by Bloomberg or by Reuters (market approach).

Derivatives
The fair value of the derivatives is determined using valuation techniques commonly known on the market, such as discounted cash flows for swaps or Black-Sholes formula for options.

Firm derivatives – interest rate swaps, currency swaps and forward foreign exchange contracts, are the main derivative products measured using as valuation technique the income approach (discounting cash flows) and incorporating observable inputs from market (foreign exchange spot rate, forward rates, interest rate rates, futures), both directly observable ones (explicit parameters) and indirectly observable ones.

The directly observable parameters are variables that come directly from the market and are presumed to be easily available, accessible to each market participant. The main explicit parameters used in valuation of firm financial instruments are interbank fixing FX rates published by NBR, interbank swap points, interbank bid/ask interest rates, futures quotes on EUR and USD. Implicit parameters are variables obtained through standard intermediary calculation, using market prices for relevant financial instruments. The yield curves designated at the level of each product and currency are fed with explicit parameters according to the pre-set configuration, facilitating the computation of implicit parameters used in computing the fair value such as Zero-coupons, Discount Factors and Forward Interest Rates.

Conditional derivatives - FX options, interest rate options and equity options, are valued daily, using the mark-to-model approach. The model is calibrated to derive the value of the option based on the current market conditions (spot rates) and the future values presumed to be attained by the underlying (forward exchange rates, FRAs etc), integrating in the calculation the standard option-sensitivities (delta, gamma, vega, theta), along with information regarding the size of the positions and the liquidity of the instrument. The fair value is determined through SG's computation module, the values of the specific parameters being daily retrieved from the market and stored in the database, serving as direct input in the daily final formula or further used for the statistical calculation implied by the valuation process.

BRD manages the group of these financial asset s and liabilities (options) on the basis of the entity's net exposure to a particular market risk (foreign exchange, interest rate, price risk) and, according to the trading book policy in place, BRD assumes no residual market risk induced by option-trading. Any bought option is perfectly matched on the same day with a sold option, identical in terms of option type, underlying, exercise prices, maturity. The perfect back-to-back system is subject to daily controls performed at back-office level, to ensure that no mismatch occurred and there is no residual open position on options. Therefore, the impact of a specific change on the estimated value on one non-observable parameter used on the valuation of an option classified/ accounted as financial asset is offset by same specific change on estimated value of the same non-observable parameter on the valuation of the mirror-replicated option classified/ accounted as financial liability.

43. Fair value (continued)

Equities

These assets are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the financial performance of the investee.
The fair value of equity instruments not listed classified as at fair value through profit and loss and consisting of ordinary shares of other entities is determined by using the net assets of the entities as at the end of the last closed reporting period. The entities net assets represent the best estimation of the current replacement cost that would be paid in order to replace the holding as it consists of the initial capital investment adjusted by the financial performance of the entity.

In the case of Visa share, following the acquisition of VISA Europe by VISA Inc, transaction which was closed in June 2016, the Bank, as principal member, received a share of the sale proceeds, having both a cash component and a share in VISA Inc component. Following the SG approach, in order to determine the fair value of the share, the Bank adjusted the sale proceeds using some prudential haircuts (liquidity, litigation risks etc.).

Fair value of financial assets and liabilities not carried at fair value

Financial assets

Deposits with banks, loans originated by the Group and leases are measured at amortized cost using the effective interest rate method less any impairment allowance.

For deposits with banks, amortized cost is estimated to approximate fair value due to their short–term nature, interest rates reflecting current market conditions and no significant transaction costs.

For loans and lease receivables the fair value is determined by using discounted cash-flows based on interest rate offered to similar products and similar time horizons.

Financial liabilities

The amortized cost of deposits from banks is considered to approximate their respective fair values, since these items have predominantly short maturities, carry interest rates reflecting current market conditions and are settled without significant transaction costs.

For due to customers and borrowings amounts the fair value is determined by using discounted cash-flows based on interest rate offered to similar products and customers and with similar time horizons.

(Amounts in thousands RON)

43. Fair value (continued)

The following table presents the fair value and the carrying amount per type of financial instrument.

	Group				Bank			
	December 31, 2018		December 31, 2017		December 31, 2018		December 31, 2017	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Financial assets								
Cash in hand	2,236,045	2,236,045	1,924,214	1,924,214	2,236,018	2,236,018	1,924,188	1,924,188
Due from Central Bank	3,785,491	3,785,491	5,757,953	5,757,953	3,785,491	3,785,491	5,757,953	5,757,953
Due from banks	3,316,344	3,316,344	2,549,512	2,549,512	3,297,915	3,297,915	2,530,468	2,530,468
Loans and advances to customers	29,603,276	29,073,626	29,608,422	29,756,635	28,893,343	29,073,003	29,011,925	29,261,379
Financial lease receivables	761,012	760,754	727,768	727,965	-	-	-	-
	39,702,168	**39,172,260**	**40,567,869**	**40,716,279**	**38,212,767**	**38,392,427**	**39,224,534**	**39,473,988**
Financial liabilities								
Due to banks	297,817	297,817	885,970	885,970	297,817	297,817	885,970	885,970
Due to customers	45,216,995	45,220,593	44,219,686	44,220,105	45,315,556	45,319,161	44,387,308	44,387,729
Borrowed funds	1,306,638	1,306,638	1,252,455	1,252,455	16,582	16,582	48,530	48,530
	46,821,450	**46,825,048**	**46,358,111**	**46,358,530**	**45,629,955**	**45,633,560**	**45,321,808**	**45,322,229**

(Amounts in thousands RON)

43. Fair value (continued)

The methods and significant assumptions applied in determining the fair value of the elements in the table above are listed below.

The fair value of fixed rate instruments is estimated by discounting the maturing cash flows with discount factors derived from the rates offered to similar clients, for similar products on similar maturities. The fair value of floating instruments is estimated by discounting from the next re-pricing date using as discount factors rates offered to similar clients, for similar products on similar time horizons.

Changes in the credit quality of loans within the portfolio are not taken into account in determining gross fair values, as the impact of impairment is recognized separately by deducting the amount of the allowance for credit losses from both carrying and fair values.

For the purposes of the fair value disclosure, the interest accrued to date is included in the carrying value of the financial instruments.

The transfers between levels of fair value hierarchy are deemed to have occurred the date of the event or change in circumstances that caused the transfer, but not later that the end of the reporting period.

Movement in level 3:

Fair value of equity investments not listed is estimated based on net assets of the investments.

	Equity investments (not listed)	Options (A)	Options (L)
Closing balance as at December 31, 2016	**22,983**	**65,522**	**65,835**
Acquisitions	-	29,950	29,950
Sales	(8)	(1,357)	(1,357)
Reimbursements	-	(46,589)	(46,589)
Gain losses from change in fair value	11,154	(1,336)	(1,572)
Translation differences	(1,807)	-	-
Closing balance as at December 31, 2017	**32,322**	**46,190**	**46,267**
Acquisitions	-	25,061	25,061
Sales	(131)	(1,143)	(1,143)
Reimbursements	-	(24,903)	(24,904)
Gain losses from change in fair value	11,986	672	1,825
Translation differences	799	-	-
Closing balance as at December 31, 2018	**44,976**	**45,877**	**47,106**

44. Subsequent events

No subsequent event was identified after the reporting date.