BRD – Groupe Société Générale S.A.

INTERIM FINANCIAL STATEMENTS

JUNE 30, 2018

BRD – Groupe Société Générale S.A.
CONSOLIDATED AND SEPARATE STATEMENT OF FINANCIAL POSITION
for the period ended June 30, 2018
(Amounts in thousands RON)

	Note	Group		Bank	
		Unaudited (*)			
		June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
ASSETS					
Cash in hand		1,709,596	1,924,214	1,709,591	1,924,188
Due from Central Bank	4	2,510,064	5,757,953	2,510,064	5,757,953
Due from banks	5	4,377,527	2,549,512	4,359,414	2,530,468
Derivatives and other financial instruments held for trading	6	2,154,922	637,686	2,154,922	637,689
Loans and advances to customers	7	29,049,424	29,608,422	28,411,905	29,011,925
Finance lease receivables	8	748,238	727,768	-	-
Financial assets available for sale	2f	-	12,135,373	-	12,113,692
Financial assets at fair value through profit and loss	2f,9	82,151	-	57,842	-
Financial assets at fair value through other comprehensive income	2f,10	11,692,770	-	11,692,770	-
Investments in associates and subsidiares		148,542	151,860	158,594	158,594
Property, plant and equipment	11	808,460	832,918	801,267	825,645
Investment property	11	11,851	12,544	11,851	12,544
Goodwill	12	50,130	50,130	50,130	50,130
Intangible assets	13	118,010	106,408	115,684	103,263
Deferred tax asset	18	146,639	112,536	141,505	109,484
Other assets	14	300,941	320,067	228,779	255,348
Total assets		**53,909,265**	**54,927,391**	**52,404,318**	**53,490,923**
LIABILITIES AND SHAREHOLDERS' EQUITY					
Due to banks	15	451,725	885,970	451,725	885,970
Due to customers	16	44,252,010	44,219,686	44,294,086	44,387,308
Borrowed funds	17	1,189,496	1,252,455	20,400	48,530
Derivatives and other financial instruments held for trading	6	456,922	138,044	456,922	138,044
Current tax liability	18	72,221	103,581	70,023	102,388
Deferred tax liability	18	-	955	-	-
Other liabilities	19	851,722	957,949	778,680	900,296
Total liabilities		**47,274,096**	**47,558,640**	**46,071,836**	**46,462,536**
Share capital	20	2,515,622	2,515,622	2,515,622	2,515,622
Other reserves		(187,053)	66,302	(193,173)	61,606
Retained earnings and capital reserves		4,262,966	4,733,415	4,010,033	4,451,159
Non-controlling interest		43,634	53,412	-	-
Total equity		**6,635,169**	**7,368,751**	**6,332,482**	**7,028,387**
Total liabilities and equity		**53,909,265**	**54,927,391**	**52,404,318**	**53,490,923**

Giovanni Luca Soma
Chairman of the Board of Directors

François Bloch
Chief Executive Officer

Petre Bunescu
Deputy Chief Executive Officer

Stephane Fortin
Chief Financial Officer

The accompanying notes are an integral part of this interim financial statements

(*) Unaudited / unreviewed by the financial auditor

BRD – Groupe Société Générale S.A.
CONSOLIDATED AND SEPARATE PROFIT OR LOSS
for the period ended June 30, 2018
(Amounts in thousands RON)

		Group		Bank	
		Unaudited (*)	Unaudited (*)		
	Note	Six months ended June 30, 2018	Six months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
Interest and similar income	21	1,012,668	902,889	946,092	842,005
Interest and similar expense	22	(75,176)	(74,770)	(67,516)	(70,064)
Net interest income		**937,492**	**828,119**	**878,576**	**771,941**
Fees and commissions, net	23	**379,273**	**367,387**	**361,572**	**349,293**
Gain on derivative, other financial instruments held for trading and foreign exchange	24	140,346	124,426	139,869	123,860
Gain on financial assets available for sale		-	2,054	-	2,054
Gain from financial instruments at fair value through other comprehensive income		1	-	1	-
Gain from financial instruments at fair value through profit and loss		6,076	-	6,018	-
Income from associates		12,864	16,521	17,605	19,420
Other income	25	3,819	721	34,035	22,566
Operating income		**1,479,871**	**1,339,229**	**1,437,676**	**1,289,134**
Personnel expenses	27	(377,888)	(339,394)	(353,312)	(317,380)
Depreciation, amortisation and impairment on tangible and intangible assets	28	(66,450)	(62,435)	(64,957)	(60,868)
Contribution to Guarantee Scheme and Resolution Fund	26	(35,026)	(70,750)	(35,026)	(70,750)
Other operating expenses	29	(258,925)	(245,497)	(243,422)	(229,835)
Total operating expenses		**(738,289)**	**(718,076)**	**(696,717)**	**(678,833)**
Net operating profit		**741,582**	**621,153**	**740,959**	**610,301**
Cost of risk	30	154,384	269,863	159,501	275,986
Profit before income tax		**895,966**	**891,016**	**900,460**	**886,287**
Current income tax expense	18	(143,040)	(141,630)	(138,476)	(137,771)
Deferred tax income	18	3,629	595	4,735	1,542
Total income tax		**(139,411)**	**(141,035)**	**(133,741)**	**(136,229)**
Profit for the period		**756,555**	**749,981**	**766,719**	**750,058**
Profit attributable to equity holders of the parent		752,115	744,119		
Profit attributable to non-controlling interests		4,440	5,862		
Basic earnings per share (in RON)	36	**1.0792**	**1.0678**	**1.1002**	**1.0763**

The accompanying notes are an integral part of this interim financial statements

(*) Unaudited / unreviewed by the financial auditor

BRD – Groupe Société Générale S.A.
CONSOLIDATED AND SEPARATE STATEMENT OF COMPREHENSIVE INCOME
for the period ended June 30, 2018
(Amounts in thousands RON)

	Group		Bank	
	Unaudited (*)	Unaudited (*)		
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Profit for the period	**756,555**	**749,981**	**766,719**	**750,058**
Changes in other comprehensive income	**(235,729)**	**10,067**	**(237,153)**	**7,713**
Net gain/(loss) on financial assets available for sale / on financial assets at fair value through other comprehensive income	(237,153)	7,713	(237,153)	7,713
Reclassifications to profit and loss during the period	(1)	(2,055)	(1)	(2,055)
Revaluation differences	(281,958)	11,238	(281,958)	11,238
Income tax	44,806	(1,470)	44,806	(1,470)
Exchange differences on translation of foreign operations	1,424	2,354	-	-
Other comprehensive income for the period, net of tax	**(235,729)**	**10,067**	**(237,153)**	**7,713**
Total comprehensive income for the period, net of tax	**520,826**	**760,048**	**529,566**	**757,771**
Attributable to:				
Equity holders of the parent	516,386	754,186		
Non-controlling interest	4,440	5,862		

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BRD – Groupe Société Générale S.A.
CONSOLIDATED AND SEPARATE STATEMENT OF CHANGES IN EQUITY
for the period ended June 30, 2018
(Amounts in thousands RON)

Group Unaudited (*)

	Attributable to equity holders of the parent						
		Other reserves					
	Issued capital	Reserve from available for sale assets	Reserves from defined pension plan	Foreign currency translation reserve	Retained earnings and capital reserves	Non-controlling interest	Total equity
December 31, 2016	**2,515,622**	**276,697**	**(4,650)**	**-**	**3,835,793**	**50,371**	**6,673,834**
Total comprehensive income	-	**7,713**	-	**2,354**	**744,119**	**5,862**	**760,048**
Net Profit for the period	-	-	-		744,119	5,862	**749,981**
Other comprehensive income	-	7,713	-	2,354	-	-	**10,067**
Equity dividends	-				(508,736)	(5,173)	**(513,909)**
June 30, 2017	**2,515,622**	**284,410**	**(4,650)**	**2,354**	**4,071,176**	**51,060**	**6,919,972**

	Attributable to equity holders of the parent						
		Other reserves					
	Issued capital	Reserve from available for sale assets / Reserves from financial assets at fair value through other comprehensive income	Reserves from defined pension plan	Foreign currency translation reserve	Retained earnings and capital reserves	Non-controlling interest	Total equity
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 2f)	**-**	**(17,626)**	**-**	**-**	**(79,645)**	**(7,031)**	**(104,301)**
Restated opening balance	**2,515,622**	**48,401**	**(4,421)**	**4,696**	**4,653,770**	**46,381**	**7,264,450**
Total comprehensive income	-	(237,153)	-	1,424	752,115	4,440	**520,826**
Net Profit for the period	-	-	-		752,115	4,440	**756,555**
Other comprehensive income	-	(237,153)	-	1,424	-	-	**(235,729)**
Equity dividends	-				(1,142,919)	(7,187)	**(1,150,106)**
June 30, 2018	**2,515,622**	**(188,752)**	**(4,421)**	**6,120**	**4,262,966**	**43,634**	**6,635,169**

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BRD – Groupe Société Générale S.A.
CONSOLIDATED AND SEPARATE STATEMENT OF CHANGES IN EQUITY
for the period ended June 30, 2018
(Amounts in thousands RON)

Bank

	Issued capital	Other reserves: Reserve from available for sale assets	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	-	**7,713**	-	**750,058**	757,771
Net Profit for the period	-	-	-	750,058	750,058
Other comprehensive income	-	7,713	-	-	7,713
Equity dividends	-	-	-	(508,736)	(508,736)
June 30, 2017	**2,515,622**	**284,410**	**(4,650)**	**3,820,836**	**6,616,218**

	Issued capital	Other reserves: Reserve from available for sale assets / Reserves from financial assets at fair value through other comprehensive income	Other reserves: Reserves from defined pension plan	Retained earnings and capital reserves	Total equity
December 31, 2017	**2,515,622**	**66,027**	**(4,420)**	**4,451,159**	**7,028,388**
IFRS 9 Impact (see note 2f)	-	**(17,627)**	-	**(64,925)**	**(82,552)**
Restated opening balance	**2,515,622**	**48,400**	**(4,420)**	**4,386,233**	**6,945,835**
Total comprehensive income	-	(237,153)	-	766,719	529,565
Net Profit for the period	-	-	-	766,719	766,719
Other comprehensive income	-	(237,153)	-	-	(237,153)
Equity dividends	-	-	-	(1,142,919)	(1,142,919)
June 30, 2018	**2,515,622**	**(188,753)**	**(4,420)**	**4,010,032**	**6,332,481**

The accompanying notes are an integral part of this interim financial statements

(*) Unaudited / unreviewed by the financial auditor

(Amounts in thousands RON)

		Group		Bank	
		Unaudited (*)	Unaudited (*)		
	Note	Six months ended June 30, 2018	Six months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
Cash flows from operating activities					
Profit before tax		**895,966**	**891,016**	**900,460**	**886,287**
Adjustments for non-cash items					
Depreciation and amortization expense and net loss/(gain) from disposals of tangible and intangible assets	28	66,450	62,435	64,957	60,868
Loss from investment revaluation		3,318	546	-	-
Impairment adjustments and provisions	7,19	(39,150)	122,950	(44,444)	111,822
Profit adjusted for non cash items		**926,584**	**1,076,947**	**920,973**	**1,058,977**
Changes /re-classifications in operating assets and liabilities					
Current account with NBR		1,247,764	1,231,840	1,247,765	1,231,840
Accounts and deposits with banks		(45,156)	78,269	(46,119)	70,811
Financial assets available for sale		12,135,373	(579,413)	12,113,692	(584,654)
Financial assets at fair value through profit and loss		(82,151)	-	(57,842)	-
Financial assets at fair value through other comprehensive income		(11,928,499)	-	(11,929,923)	-
Loans and advances to customers		383,901	(1,348,910)	447,482	(1,292,580)
Lease receivables		(28,780)	(19,213)	-	-
Other assets including trading		(1,554,597)	384,809	(1,547,263)	370,460
Due to banks		(434,245)	35,786	(434,245)	35,786
Due to customers		32,324	867,134	(93,222)	827,693
Other liabilities		356,933	(303,306)	341,862	(296,372)
Total changes in operating assets and liabilities		**82,867**	**346,996**	**42,187**	**362,984**
Income tax paid		(174,401)	(38,896)	(170,841)	(35,520)
Cash flow from operating activities		**835,050**	**1,385,047**	**792,319**	**1,386,441**
Investing activities					
Acquisition of tangible and intangible assets	11,13	(56,151)	(62,291)	(55,558)	(61,944)
Proceeds from sale of tangible and intangible assets		3,251	14	3,251	14
Cash flow from investing activities		**(52,900)**	**(62,277)**	**(52,307)**	**(61,930)**
Financing activities					
Proceeds from borrowings		241,336	269,091	313	980
Repayment of borrowings		(304,404)	(323,268)	(28,444)	(61,274)
Dividends paid		(1,150,106)	(513,911)	(1,142,919)	(508,736)
Net cash from financing activities		**(1,213,174)**	**(568,088)**	**(1,171,050)**	**(569,030)**
Net movements in cash and cash equivalents		**(431,024)**	**754,681**	**(431,039)**	**755,480**
Cash and cash equivalents at beginning of the period	31	**6,204,834**	**3,511,237**	**6,204,801**	**3,510,408**
Cash and cash equivalents at the end of the period	31	**5,773,810**	**4,265,918**	**5,773,762**	**4,265,888**

	Group		Bank	
	Unaudited (*)	Unaudited (*)		
	Six months ended June 30, 2018	Six months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
Interest paid	80,494	84,527	73,043	79,807
Interest received	1,183,960	1,187,558	1,115,887	1,123,370
Dividends received	17,984	20,392	50,897	44,995

The amount of undrawn borrowing facilities that may be available for future operating activities is 699,165 (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 2f.

The accompanying notes are an integral part of this interim financial statements

(*) Unaudited / unreviewed by the financial auditor

(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 June 30, 2018 (the "Parent"or "SG").

The Bank has as at June 30, 2018 754 units throughout the country (December 31, 2017: 760).

The average number of active employees of the Group during the first semester of 2018 was 7,484 (2017: 7,564), and the number of active employees of the Group as of the period-end was 7,437 (December 31, 2017: 7,568).

The average number of active employees of the Bank during the first semester of 2018 was 6,904 (2017: 6,982), and the number of active employees of the Bank as of the period-end was 6,862 (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:

	June 30, 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%
Fondul Proprietatea	2.40%	3.18%
Legal entities	27.23%	27.00%
Individuals	3.87%	3.56%
Total	**100.00%**	**100.00%**

2. Basis of preparation

a) Basis of preparation

The separate interim financial statements as at 30 June 2018 are of the Bank BRD – Groupe Société Générale. These are reviewed by Ernst & Young Assurance Services SRL in accordance with International Standards of Review Engagements (ISRE) 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. The consolidated interim financial statements as at 30 June 2018 and 30 June 2017 are not audited nor reviewed (references included in the financial statements and selected explanatory notes).

The interim financial statements for the six months ended 30 June 2018 has been prepared in accordance with IAS 34 *Interim Financial Reporting*.

The interim financial statements does not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements for the year ended December 31, 2017. 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, as amended, BRD prepared consolidated and separate financial statements for the year ended December 31, 2017 in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union ("EU").

The consolidated interim financial statements includes the consolidated statement of financial position, the consolidated income statement, the consolidated statement of comprehensive income, the statement of changes in shareholders' equity, the consolidated cash flow statement, and selected explanatory notes.

The separate interim financial statements includes the separate statement of financial position, the separate income statement, the separate statement of comprehensive income, the statement of changes in shareholders' equity, the separate cash flow statement, and selected explanatory notes.

The consolidated and separate interim 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 interim 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 Bank's management has made an assessment of the 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 financial statements are prepared on the going concern basis.

b) Basis for consolidation

The consolidated interim financial statements comprises the financial statements of the credit institution and its subsidiaries as at June 30, 2018. The financial statements of the subsidiaries are prepared for the same reporting period, using consistent accounting policies.

(Amounts in thousands RON)

2. Basis of preparation (continued)

b) Basis for consolidation (continued)

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%). 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.

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, 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, 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	18 Elefterie Street, district 5, Bucharest	99.98%

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.

2. Basis of preparation (continued)

b) Basis for consolidation (continued)

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

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

The following standards, amendments to the existing standards and interpretations issued by the International Accounting Standard Board ("IASB") and adopted by the EU 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 on IFRS 9 presented in note 2f).

- **IFRS 9 Financial Instruments: Classification and Measurement**

  The standard is effective for annual periods beginning on or after 1 January 2018, with early application permitted. The final version of IFRS 9 Financial Instruments reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. For details in Note 2e and Note 2f.

  - Classification and Measurement - IFRS 9 introduces new approach for the classification of financial assets, which is driven by cash flow characteristics and the business model in which an asset is held. This single, principle-based approach replaces existing rule-based requirements under IAS 39.
  - Impairment - IFRS 9 has introduced a new, expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis.
  - Hedge accounting - IFRS 9 introduces a substantially-reformed model for hedge accounting, with enhanced disclosures about risk management activity. The new model represents a significant overhaul of hedge accounting that aligns the accounting treatment with risk management activities.
  - Own credit risk- IFRS 9 removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognised in profit or loss.

2. Basis of preparation (continued)

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

- **IFRS 15 Revenue from Contracts with Customers**
  The standard is effective for annual periods beginning on or after 1 January 2018. 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 Clarifications apply for annual periods beginning on or after 1 January 2018 with earlier application permitted. 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 are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. 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 are effective for annual periods beginning on or after 1 January 2018. 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 are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. 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. The amendments are effective for annual periods beginning on or after 1 January 2018 for IFRS 1 First-time Adoption of International Financial Reporting Standards and for IAS 28 Investments in Associates and Joint Ventures. Earlier application is permitted for IAS 28 Investments in Associates and Joint Ventures.

  - **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 is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. 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.

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

- **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. This Interpretation has 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)

- 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.

e) IFRS 9 summary of significant accounting policies

The Group has adopted IFRS 9 ("IFRS 9") with a date of transition of 1 January 2018.

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 recognised in the opening retained earnings and other reserves of the current period and are presented in Note 2f.

The Group has also elected to continue to apply the hedge accounting requirements of IAS 39 on adoption of IFRS 9.

2. Basis of preparation (continued)

e) IFRS 9 summary of significant accounting policies (continued)

The adoption of IFRS 9 has resulted in changes in accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets.

IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 'Financial Instruments: Disclosures'. Consequently, disclosures amendments have been applied to the current period. Comparative notes disclosures repeat disclosures made in the prior year.

Disclosures for impact of adoption on IFRS 9 on the Group are presented in accordance with IFRS 7 requirements and included in Note 2d.

The main changes to the Group's accounting policies resulting from IFRS 9 adoptions are summarised below:

Classification of financial assets:

In accordance with IFRS 9 classification, the Group classifies financial assets 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. Based on these factors, the Group classifies its financial assets into one of the following categories:

- 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 reverse repos held for trading.

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.

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".

Derivative financial instruments are measured at fair value through profit and loss.

2. Basis of preparation (continued)

e) IFRS 9 summary of significant accounting policies (continued)

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.

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 2f – classification of financial assets).

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.

2. Basis of preparation (continued)

e) IFRS 9 summary of significant accounting policies (continued)

Derecognition of financial assets

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;

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;

2. Basis of preparation (continued)

e) IFRS 9 summary of significant accounting policies (continued)

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.

Impairment model of financial assets

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.

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

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).

Consequently, financial assets subject to loss allowances are classified in one of the 3 stages based on the assessment of whether the financial instrument credit risk has increased significant since initial recognition:

- **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

2. Basis of preparation (continued)

e) IFRS 9 summary of significant accounting policies (continued)

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:

  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).

2. Basis of preparation (continued)

e) IFRS 9 summary of significant accounting policies (continued)

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 less than 8% of total stock of provisions.

How individual triggers and consequent loss measurement under IAS 39 compare with the treatment of "credit-impaired exposures" under IFRS 9

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

Changes in the timing of recognition losses

The ECL is computed from the time of origination.

2. Basis of preparation (continued)

e) IFRS 9 summary of significant accounting policies (continued)

Impairment/default principles

BRD 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. The definition of default did not change with the transition to IFRS9 standard.

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. The Bank's accounting policy for collateral assigned to it through its lending arrangements under IFRS 9 is the same as it was under IAS 39.

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.

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.

The Bank performs permanent write offs 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.

(Amounts in thousands RON)

2. Basis of preparation (continued)

f) 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		**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		-		30,692,041.15
Loans, impairment provisions	E		(2,480,133)		(201,739)		(2,681,872)
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			614,376		-		614,376
Deferred tax liability			955		(955)		-
Provisions for financial guarantees and undrawn commitments			447,154		(138,046)		309,106
Total liabilities			**47,558,640**		**(139,001)**		**47,419,637**

(Amounts in thousands RON)

2. Basis of preparation (continued)

f) IFRS 9 transitory disclosures

Bank

		IAS 39 measurement		Re-classification	Re-measurement /Impact IFRS 9	IFRS9 measurement	
Financial assets		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)	(190,574)	Amortised cost	27,682,148
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		-	Amortised cost	30,022,036
Loans, impairment provisions	E		(2,406,625)		(184,296)	Amortised cost	(2,590,921)
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		**(203,225)**		**51,993,315**
Other assets			1,184,899		-		1,184,899
Deferred tax asset			109,484		(17,520)		91,964
Total assets			**53,490,923**	**-**	**(220,745)**		**53,270,178**
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			555,530		-		555,530
Provisions for financial guarantees and undrawn commitments	J		447,154		(138,192)		308,962
Total liabilities			**46,462,536**	**-**	**(138,192)**		**46,324,344**

2. Basis of preparation (continued)

f) IFRS 9 transitory disclosures

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, J

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”

- 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 MRON was reclassified to retained earnings as shown in Note 2f.

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.

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(Amounts in thousands RON)

2. Basis of preparation (continued)

f) 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 2f)	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*		*Gross amount*	*Deferred tax*	
IFRS 9 impact											-
Equity instruments	F	(21,093)	(25,111)	4,018	25,111	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 fair value	D	(3,006)	(3,578)	573	-	-	-	-	-	-	(3,006)
Loans and advances, Due from banks, Corporate bonds impairment allowance	A, D, E	-	-	-	(195,472)	(196,923)	1,451	(7,031)	(8,371)	1,339	(202,502)
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**	**(79,648)**	**(60,341)**	**(19,307)**	**(7,031)**	**(8,371)**	**1,339**	**(104,305)**

(Amounts in thousands RON)

2. Basis of preparation (continued)

f) IFRS 9 transitory disclosures (continued)

Bank

	Reference transition financial position note 2f)	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*	
December 31, 2017 - IAS 39		**66,026**	**78,603**	**(12,576)**	**4,451,159**			**7,028,387**
IFRS 9 impact								**-**
Equity instruments	F	(21,093)	(25,111)	4,018	25,111	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 fair value	D	(3,006)	(3,578)	573	-		-	**(3,006)**
Loans and advances, Due from banks, Corporate bonds impairment allowance	A, D, E	-		-	(187,852)	(187,852)	-	**(187,852)**
Financial guarantees and commitments provisions	J	-	-	-	116,080	138,190	(22,110)	**116,080**
Total IFRS 9 impact		(17,626)	(22,216)	4,590	(64,928)	(42,818)	(22,110)	**(82,554)**

2. Basis of preparation (continued)

g) 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 37.

Impairment losses on loans and receivables

The Bank's ECL model 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 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 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

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).

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.

2. Basis of preparation (continued)

g) 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 35 for more details.

h) 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. 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)

3. Segment information (continued)

Group

	June 30, 2018 Unaudited				December 31, 2017			
	Total	Retail	Non retail	Corporate Center	Total	Retail	Non retail	Corporate Center
Total assets	**53,909,265**	**21,377,894**	**8,419,768**	**24,111,603**	**54,927,391**	**20,876,991**	**9,459,199**	**24,591,201**
Loans and advances to customers, net & Finance lease receivables	29,797,662	21,377,894	8,419,768	0	30,336,190	20,876,991	9,459,199	-
Other assets	24,111,603	-	-	24,111,603	24,591,201	-	-	24,591,201
Total liabilities	**53,909,265**	**28,565,548**	**15,686,462**	**9,657,255**	**54,927,391**	**27,837,197**	**16,382,489**	**10,707,705**
Due to customers	44,252,010	28,565,548	15,686,462	-	44,219,686	27,837,197	16,382,489	-
Other liabilities	9,657,255	-	-	9,657,255	10,707,705	-	-	10,707,705

Bank

	June 30, 2018				December 31, 2017			
	Total	Retail	Non retail	Corporate Center	Total	Retail	Non retail	Corporate Center
Total assets	**52,404,318**	**20,591,524**	**7,820,381**	**23,992,413**	**53,490,923**	**20,230,404**	**8,781,521**	**24,478,998**
Loans and advances to customers, net & Finance lease receivables	28,411,905	20,591,524	7,820,381	0	29,011,925	20,230,404	8,781,521	-
Other assets	23,992,413	-	-	23,992,413	24,478,998	-	-	24,478,998
Total liabilities	**52,404,318**	**28,565,548**	**15,728,538**	**8,110,232**	**53,490,923**	**27,837,197**	**16,550,111**	**9,103,615**
Due to customers	44,294,086	28,565,548	15,728,538	-	44,387,308	27,837,197	16,550,111	-
Other liabilities	8,110,232	-	-	8,110,232	9,103,615	-	-	9,103,615

(Amounts in thousands RON)

3. Segment information (continued)

	Group							
	Unaudited Six months ended June 30, 2018				Unaudited Six months ended June 30, 2017			
	Total	**Retail**	**Non retail**	**Corporate Center**	**Total**	**Retail**	**Non retail**	**Corporate Center**
Net interest income	937,493	627,261	216,729	93,502	828,119	540,032	196,526	91,561
Fees and commissions, net	379,273	293,891	85,277	105	367,387	278,971	87,187	1,229
Total non-interest income	163,105	45,694	45,629	71,783	143,723	48,049	47,124	48,550
Operating income	**1,479,871**	**966,847**	**347,635**	**165,389**	**1,339,229**	**867,052**	**330,837**	**141,341**
Total operating expenses	**(738,289)**	**(549,665)**	**(172,996)**	**(15,628)**	**(718,076)**	**(507,568)**	**(189,920)**	**(20,588)**
Cost of risk	154,384	(27,560)	184,546	(2,602)	269,863	(47,687)	347,479	(29,928)
Profit before income tax	**895,966**	**389,622**	**359,185**	**147,159**	**891,016**	**311,797**	**488,395**	**90,825**
Total income tax	(139,411)	(60,663)	(55,924)	(22,824)	(141,035)	(55,913)	(67,818)	(17,304)
Profit for the period	**756,555**	**328,959**	**303,261**	**124,335**	**749,981**	**255,884**	**420,577**	**73,521**
Cost Income Ratio	**49.9%**	**56.8%**	**49.8%**	**9.4%**	**53.7%**	**55.6%**	**65.9%**	**12.6%**

(Amounts in thousands RON)

3. Segment information (continued)

Bank

	Six months ended June 30, 2018				Six months ended June 30, 2017			
	Total	**Retail**	**Non retail**	**Corporate Center**	**Total**	**Retail**	**Non retail**	**Corporate Center**
Net interest income	878,576	586,777	196,246	95,554	771,941	501,245	178,287	92,408
Fees and commissions, net	361,572	279,525	84,178	(2,131)	349,293	264,752	85,226	(685)
Total non-interest income	197,528	44,923	43,313	109,291	167,901	47,160	46,426	74,314
Operating income	**1,437,676**	**911,225**	**323,737**	**202,714**	**1,289,134**	**813,158**	**309,939**	**166,037**
Total operating expenses	**(696,717)**	**(517,410)**	**(163,474)**	**(15,833)**	**(678,833)**	**(477,145)**	**(181,059)**	**(20,629)**
Cost of risk	159,501	(17,905)	179,706	(2,300)	275,986	(41,666)	345,840	(28,188)
Profit before income tax	**900,460**	**375,910**	**339,970**	**184,581**	**886,288**	**294,347**	**474,720**	**117,220**
Total income tax	(133,741)	(55,832)	(50,494)	(27,415)	(136,229)	(45,243)	(72,968)	(18,018)
Profit for the period	**766,719**	**320,078**	**289,475**	**157,166**	**750,058**	**249,104**	**401,752**	**99,202**
Cost Income Ratio	**48.4%**	**56.8%**	**50.5%**	**7.8%**	**52.5%**	**58.7%**	**58.4%**	**12.2%**

(Amounts in thousands RON)

4. Due from Central Bank

	Group		Bank	
	Unaudited (*)			
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Current accounts	2,510,064	3,757,953	2,510,064	3,757,953
Deposits	-	2,000,000	-	2,000,000
Total	**2,510,064**	**5,757,953**	**2,510,064**	**5,757,953**

5. Due from banks

	Group		Bank	
	Unaudited (*)			
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Deposits at Romanian banks	136,946	106,598	136,946	106,598
Deposits at foreign banks	3,643,431	1,892,604	3,625,359	1,873,568
Current accounts at Romanian banks	47	9	6	-
Current accounts at foreign banks	597,103	506,663	597,103	506,663
Reverse repo	-	43,638	-	43,638
Total	**4,377,527**	**2,549,512**	**4,359,414**	**2,530,468**

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 2f.

6. Derivative and other financial instruments held for trading

Group

	June 30, 2018 Unaudited (*)		
	Assets	**Liabilities**	**Notional**
Interest rate swaps	82,977	45,703	4,156,797
Currency swaps	11,626	10,817	2,370,728
Forward foreign exchange contracts	7,939	4,138	1,525,498
Options	49,968	50,733	5,196,515
Total derivative financial instruments	**152,511**	**111,391**	**13,249,538**
Treasury notes	593,600	345,531	781,116
Reverse repo	1,408,811	-	1,367,565
Total	**2,154,922**	**456,922**	**15,398,219**

	December 31, 2017		
	Assets	**Liabilities**	**Notional**
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	483,402	20,703	481,217
Total	**637,686**	**138,044**	**13,105,767**

(Amounts in thousands RON)

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

Bank

	June 30, 2018		
	Assets	Liabilities	Notional
Interest rate swaps	82,978	45,703	4,156,797
Currency swaps	11,626	10,817	2,373,384
Forward foreign exchange contracts	7,939	4,138	1,525,498
Options	49,968	50,733	5,196,515
Total derivative financial instruments	**152,511**	**111,391**	**13,252,194**
Treasury notes	593,600	345,531	781,116
Reverse repo	1,408,811	-	1,367,565
Total	**2,154,922**	**456,922**	**15,400,875**

	December 31, 2017		
	Assets	Liabilities	Notional
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	483,402	20,703	481,217
Total	**637,689**	**138,044**	**13,107,772**

The Group and Bank received cash collateral from the parent for derivatives transactions in amount of 53,123 (December 31, 2017: 24,808).

The Group continue to apply hedge accounting (fair value hedge) as at June 30, 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 83.34 million EUR with a fixed interest rate of 1.058%.

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%;
- 80 million EUR yearly with a fixed interest rate of -0.0125%;
- 70 million EUR yearly with a fixed interest rate of 0.171%;

(Amounts in thousands RON)

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

- 70 million EUR yearly with a fixed interest rate of -0.0125%;
- 40 million USD yearly with a fixed interest rate of 2.813%;
- 30 million USD yearly with a fixed interest rate of 2.765%;

The hedging relationship was effective throughout the reporting period.
The fair value of hedging instrument for Group and Bank was the following:

	June 30, 2018		
	Assets	**Liabilities**	**Notional**
Interest rate swaps	6,512	7,119	2,435,990

	December 31, 2017		
	Assets	**Liabilities**	**Notional**
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.

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 are issued by the Romanian Government in RON, EUR and USD.

(Amounts in thousands RON)

7. Loans and advances to customers

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 2f).

	Group		Bank	
	Unaudited (*)			
	June 30, 2018	**December 31, 2017**	**June 30, 2018**	**December 31, 2017**
Loans, gross	31,358,559	32,088,555	30,619,766	31,418,550
Loans impairment	(2,309,134)	(2,480,133)	(2,207,861)	(2,406,625)
Total	**29,049,424**	**29,608,422**	**28,411,905**	**29,011,925**

The structure of loans is the following:

	Group		Bank	
	Unaudited (*)			
	June 30, 2018	**December 31, 2017**	**June 30, 2018**	**December 31, 2017**
Working capital loans	3,908,612	4,763,825	3,908,612	4,763,825
Loans for equipment	2,775,220	3,776,208	2,619,625	3,671,831
Trade activities financing	1,050,538	718,741	1,050,538	718,741
Acquisition of real estate, including mortgage for individuals	12,176,533	11,683,546	12,176,533	11,683,546
Consumer loans	9,535,976	8,690,507	8,952,778	8,124,879
Other	1,911,681	2,455,728	1,911,681	2,455,728
Total	**31,358,559**	**32,088,555**	**30,619,766**	**31,418,550**

As of June 30, 2018 the amortized cost of loans granted to the 20 largest corporate clients (groups of connected borrowers) amounts to 2,389,684 (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 4,027,999 (December 31, 2017: 4,523,077).

(*) Unaudited / unreviewed by the financial auditor

(Amounts in thousands RON)

7. Loans and advances to customers (continued)

Sector analysis of loans granted

	Group		Bank	
	Unaudited (*) June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Individuals	69.0%	65.7%	68.7%	65.2%
Public administration, education & health	4.0%	3.7%	4.1%	3.8%
Agriculture	1.5%	1.7%	1.4%	1.5%
Manufacturing	6.8%	6.6%	6.9%	6.8%
Transportation, IT&C and other services	2.6%	2.5%	2.4%	2.4%
Trade	6.2%	5.5%	6.3%	5.6%
Constructions	2.4%	2.8%	2.4%	2.9%
Utilities	2.3%	2.3%	2.4%	2.4%
Services	1.0%	1.1%	1.0%	1.1%
Others	2.8%	3.3%	2.9%	3.3%
Financial institutions	1.5%	4.8%	1.5%	5.0%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Information below is presented as at June 30, 2018.

Bank	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Individuals	68.8%	78.7%	40.2%	68.7%
Public administration, education & health	5.1%	1.9%	1.1%	4.1%
Agriculture	1.1%	1.4%	3.2%	1.4%
Manufacturing	7.3%	4.1%	10.8%	6.9%
Transportation, IT&C and other services	2.8%	1.2%	1.4%	2.4%
Trade	6.1%	4.5%	13.0%	6.3%
Constructions	0.6%	2.9%	19.0%	2.4%
Utilities	2.2%	3.5%	1.5%	2.4%
Services	0.8%	0.2%	4.7%	1.0%
Others	3.2%	1.0%	5.0%	2.9%
Financial institutions	2.0%	0.5%	0.0%	1.5%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Sector analysis of impairment allowance as at June 30, 2018:

Bank	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Individuals	135,974	258,069	583,166	977,209
Public administration, education & health	14,114	16,483	14,613	45,211
Agriculture	4,026	5,584	55,160	64,771
Manufacturing	15,743	18,577	195,883	230,204
Transportation, IT&C and other services	11,043	7,574	22,502	41,119
Trade	10,374	21,784	241,444	273,602
Constructions	1,366	24,153	271,407	296,926
Utilities	4,795	49,169	30,933	84,896
Services	2,818	1,049	77,169	81,036
Others	6,841	5,660	91,886	104,387
Financial institutions	2,594	5,832	74	8,500
Total	**209,689**	**413,934**	**1,584,238**	**2,207,861**

(*) Unaudited / unreviewed by the financial auditor

7. Loans and advances to customers (continued)

Rating analysis of loans

Considering the internal rating quality, the exposures of the counterparties not impaired are split in 3 categories which are defined below:

High grade – The counterparty is considered to be very reliable. The capacity to service its debt is very strong.

Standard grade – 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.

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.

(Amounts in thousands RON)

7. Loans and advances to customers (continued)

Group

Retail lending

	June 30, 2018 (Unaudited)				December 31, 2017
	Stage 1	Stage 2	Stage 3	Total	Total
Gross carrying amount					
Internal rating grade					
High grade	13,267,211	1,626,542	-	14,893,753	14,526,891
Standard grade	1,145,601	1,092,148	-	2,237,749	2,398,715
Sub-standard grade	243,822	195,391	-	439,213	421,769
Past due but not impaired	942,101	2,162,548	-	3,104,649	2,789,455
Non- performing	-	-	961,959	961,959	989,998
(out of which) Individual assessment	-	-	96,874	96,874	135,866
Not rated internally	483,026	14,086	86,087	583,198	565,628
Total	16,081,761	5,090,714	1,048,045	22,220,520	21,692,457
Less allowance	(156,386)	(278,409)	(709,018)	(1,143,813)	(968,400)
Net Carying amount	**15,925,374**	**4,812,305**	**339,027**	**21,076,707**	**20,724,057**

Corporate lending

	June 30, 2018 (Unaudited)				December 31, 2017
	Stage 1	Stage 2	Stage 3	Total	Total
Gross carrying amount					
Internal rating grade					
High grade	3,713,367	130,749	-	3,844,117	4,415,264
Standard grade	2,573,846	238,112	-	2,811,959	2,983,321
Sub-standard grade	41,486	689,515	-	731,001	979,402
Past due but not impaired	395,850	54,967	-	450,816	343,082
Non- performing	-	-	1,255,127	1,255,127	1,568,276
(out of which) Individual assessment	-	-	920,546	920,546	1,301,522
Not rated internally	45,018	-	-	45,018	106,754
Total	6,769,568	1,113,343	1,255,127	9,138,038	10,396,098
Less allowance	(71,544)	(144,548)	(949,230)	(1,165,321)	(1,511,734)
Net Carying amount	**6,698,024**	**968,795**	**305,897**	**7,972,717**	**8,884,365**

Total

	June 30, 2018 (Unaudited)				December 31, 2017
	Stage 1	Stage 2	Stage 3	Total	Total
Gross carrying amount					
Internal rating grade					
High grade	16,980,578	1,757,292	-	18,737,870	18,942,155
Standard grade	3,719,447	1,330,261	-	5,049,708	5,382,036
Sub-standard grade	285,309	884,905	-	1,170,214	1,401,172
Past due but not impaired	1,337,951	2,217,514	-	3,555,465	3,132,537
Non- performing	-	-	2,217,086	2,217,086	2,558,274
(out of which) Individual assessment	-	-	1,017,420	1,017,420	1,437,388
Not rated internally	528,044	14,086	86,086	628,215	672,382
Total	22,851,329	6,204,057	2,303,172	31,358,557	32,088,555
Less allowance	(227,930)	(422,957)	(1,658,248)	(2,309,135)	(2,480,133)
Net Carying amount	**22,623,399**	**5,781,100**	**644,924**	**29,049,422**	**29,608,422**

(Amounts in thousands RON)

7. Loans and advances to customers (continued)

Rating analysis of loans (continued)

Bank

Retail lending	June 30, 2018				December 31, 2017
	Stage 1	Stage 2	Stage 3	Total	Total
Gross carrying amount					
Internal rating grade					
High grade	13,267,211	1,626,542	-	14,893,753	14,526,891
Standard grade	1,145,601	1,092,148	-	2,237,749	2,398,715
Sub-standard grade	243,822	195,391	-	439,213	421,769
Past due but not impaired	942,101	2,162,548	-	3,104,649	2,789,455
Non- performing	-	-	961,959	961,959	989,998
(out of which) Individual assessment	-	-	96,874	96,874	135,866
Total	15,598,735	5,076,629	961,959	21,637,322	21,126,828
Less allowance	(138,876)	(270,970)	(635,953)	(1,045,799)	(896,425)
Net Carying amount	**15,459,859**	**4,805,659**	**326,006**	**20,591,524**	**20,230,404**

Corporate lending	June 30, 2018				December 31, 2017
	Stage 1	Stage 2	Stage 3	Total	Total
Gross carrying amount					
Internal rating grade					
High grade	3,586,462	106,195	-	3,692,658	4,316,074
Standard grade	2,573,751	238,112	-	2,811,863	2,981,738
Sub-standard grade	40,673	689,515	-	730,188	975,885
Past due but not impaired	394,469	54,967	-	449,435	343,082
Non- performing	-	-	1,253,281	1,253,281	1,568,189
(out of which) Individual assessment	-	-	920,546	920,546	1,301,522
Not rated internally	45,018	-	-	45,018	106,754
Total	6,640,373	1,088,789	1,253,281	8,982,443	10,291,722
Less allowance	(70,813)	(142,964)	(948,285)	(1,162,062)	(1,510,201)
Net Carying amount	**6,569,560**	**945,825**	**304,996**	**7,820,381**	**8,781,521**

Total	June 30, 2018				December 31, 2017
	Stage 1	Stage 2	Stage 3	Total	Total
Gross carrying amount					
Internal rating grade					
High grade	16,853,673	1,732,738	-	18,586,411	18,842,965
Standard grade	3,719,351	1,330,261	-	5,049,612	5,380,453
Sub-standard grade	284,496	884,905	-	1,169,401	1,397,654
Past due but not impaired	1,336,570	2,217,514	-	3,554,084	3,132,537
Non- performing	-	-	2,215,240	2,215,240	2,558,187
(out of which) Individual assessment	-	-	1,017,420	1,017,420	1,437,388
Not rated internally	45,018	-	-	45,018	106,754
Total	22,239,108	6,165,417	2,215,240	30,619,766	31,418,550
Less allowance	(209,689)	(413,934)	(1,584,238)	(2,207,861)	(2,406,625)
Net Carying amount	**22,029,419**	**5,751,484**	**631,003**	**28,411,905**	**29,011,925**

(Amounts in thousands RON)

7. Loans and advances to customers (continued)

Impairment allowance movement

Group

	Retail lending			
	Stage 1	Stage 2	Stage 3	**Total**
Gross carrying amount as at 1 st January 2018	14,636,175	5,987,792	1,062,396	**21,686,362**
New assets originated or purchased	2,773,517	292,493	43,342	**3,109,353**
Assets derecognised or fully repaid (excluding receivables write offs)	(965,911)	(332,949)	(57,857)	**(1,356,717)**
Transfers to Stage 1	1,516,439	(1,503,817)	(12,622)	**0**
Transfers to Stage 2	(970,064)	1,068,252	(98,188)	**0**
Transfers to Stage 3	(41,809)	(153,264)	195,073	**-**
Changes to contractual cash flows due to modifications not resulting in derecognition and partial reimbursement	(867,642)	(268,780)	(51,562)	**(1,187,985)**
Receivables written off	-	-	(32,693)	**(32,693)**
Foreign exchange adjustments	1,057	987	157	**2,201**
Gross carrying amount as at 30 June 2018 unaudited	**16,081,761**	**5,090,714**	**1,048,045**	**22,220,520**
Impairment allowance as at 1 st January 2018 (under IFRS 9)	168,959	298,124	693,595	**1,160,678**
New assets originated or purchased	11,219	14,128	31,041	**56,388**
Assets derecognised or fully repaid (excluding write offs)	(3,847)	(11,608)	(38,194)	**(53,650)**
Movements not resulting from changes in classification	(2,960)	(8,962)	70,656	**58,734**
Movements due to change in classification	(16,986)	(13,315)	(19,502)	**(49,802)**
Receivables written off	-	(0)	(28,668)	**(28,668)**
Foreign exchange adjustments	1	41	90	**133**
Impairment allowance as at 30 June 2018 unaudited	**156,386**	**278,409**	**709,018**	**1,143,813**

	Corporate lending			
	Stage 1	Stage 2	Stage 3	**Total**
Gross carrying amount as at 1 st January 2018	6,001,802	1,699,206	1,558,403	**9,259,412**
New assets originated or purchased	1,868,519	311,054	160,039	**2,339,613**
Assets derecognised or fully repaid (excluding receivables write offs)	(1,107,754)	(621,594)	(274,137)	**(2,003,485)**
Transfers to Stage 1	116,414	(116,414)	-	**-**
Transfers to Stage 2	(76,075)	77,745	(1,670)	**(0)**
Transfers to Stage 3	(539)	(148,008)	148,547	**-**
Changes to contractual cash flows due to modifications not resulting in derecognition and partial reimbursement	(34,967)	(88,914)	(87,642)	**(211,524)**
Receivables written off	-	-	(249,098)	**(249,098)**
Foreign exchange adjustments	2,167	269	685	**3,121**
Gross carrying amount as at 30 June 2018 unaudited	**6,769,568**	**1,113,343**	**1,255,127**	**9,138,038**
Impairment allowance as at 1 st January 2018 (under IFRS 9)	64,808	219,020	1,240,065	**1,523,893**
New assets originated or purchased	23,209	19,215	117,676	**160,100**
Assets derecognised or fully repaid (excluding receivables write c	(5,407)	(28,215)	(189,936)	**(223,559)**
Movements not resulting from changes in classification	366	(35,381)	44,863	**9,848**
Movements due to change in classification	(11,445)	(30,109)	(27,576)	**(69,130)**
Receivables written off	-	-	(236,494)	**(236,494)**
Foreign exchange adjustments	13	18	633	**663**
Impairment allowance as at 30 June 2018 unaudited	**71,544**	**144,548**	**949,230**	**1,165,321**

(Amounts in thousands RON)

7. Loans and advances to customers (continued)

Impairment allowance movement (continued)

	Total			
	Stage 1	Stage 2	Stage 3	**Total**
Gross carrying amount as at 1 st January 2018	20,637,977	7,686,998	2,620,799	**30,945,774**
New assets originated or purchased	4,642,037	603,547	203,382	**5,448,965**
Assets derecognised or fully repaid (excluding receivables write offs)	(2,073,665)	(954,543)	(331,994)	**(3,360,202)**
Transfers to Stage 1	1,632,853	(1,620,232)	(12,622)	**0**
Transfers to Stage 2	(1,046,139)	1,145,997	(99,858)	**0**
Transfers to Stage 3	(42,348)	(301,272)	343,621	**-**
Changes to contractual cash flows due to modifications not resulting in derecognition and partial reimbursement	(902,610)	(357,695)	(139,205)	**(1,399,509)**
Receivables written off	-	-	(281,792)	**(281,792)**
Foreign exchange adjustments	3,224	1,256	842	**5,322**
Gross carrying amount as at 30 June 2018 unaudited	**22,851,329**	**6,204,057**	**2,303,172**	**31,358,558**
Impairment allowance as at 1 st January 2018 (under IFRS 9)	233,767	517,145	1,933,659	**2,684,571**
New assets originated or purchased	34,428	33,343	148,717	**216,488**
Assets derecognised or fully repaid (excluding receivables write c	(9,255)	(39,823)	(228,130)	**(277,208)**
Movements not resulting from changes in classification	(2,594)	(44,343)	115,519	**68,582**
Movements due to change in classification	(28,431)	(43,424)	(47,078)	**(118,933)**
Receivables written off	-	(0)	(265,161)	**(265,161)**
Foreign exchange adjustments	14	59	723	**796**
Impairment allowance as at 30 June 2018 unaudited	**227,930**	**422,957**	**1,658,248**	**2,309,134**

(Amounts in thousands RON)

7. Loans and advances to customers (continued)

Impairment allowance movement (continued)

Bank

	Retail lending			
	Stage 1	Stage 2	Stage 3	**Total**
Gross carrying amount as at 1 st January 2018	14,160,187	5,974,168	988,894	**21,123,249**
	-	-	-	-
New assets originated or purchased	2,646,320	289,692	41,254	**2,977,266**
Assets derecognised or fully repaid (excluding receivables write offs)	(929,487)	(332,518)	(55,915)	**(1,317,920)**
Transfers to Stage 1	1,511,202	(1,499,682)	(11,520)	**0**
Transfers to Stage 2	(959,926)	1,057,964	(98,038)	**0**
Transfers to Stage 3	(33,404)	(146,180)	179,584	-
Changes to contractual cash flows due to modifications not resulting in derecognition and partial reimbursement	(797,215)	(267,802)	(49,763)	**(1,114,781)**
Receivables written off	-	-	(32,693)	**(32,693)**
Foreign exchange adjustments	1,057	987	157	**2,201**
Gross carrying amount as at 30 June 2018	**15,598,735**	**5,076,629**	**961,959**	**21,637,322**
Impairment allowance as at 1 st January 2018 (under IFRS 9)	149,595	290,535	632,159	**1,072,289**
New assets originated or purchased	11,036	13,059	19,389	**43,484**
Assets derecognised or fully repaid (excluding receivable	(3,664)	(11,602)	(38,194)	**(53,461)**
Movements not resulting from changes in classification	(2,960)	(8,962)	70,656	**58,734**
Movements due to change in classification	(15,132)	(12,101)	(19,502)	**(46,736)**
Receivables written off	-	(0)	(28,645)	**(28,645)**
Foreign exchange adjustments	1	41	90	**133**
Impairment allowance as at 30 June 2018	**138,876**	**270,970**	**635,952**	**1,045,798**

	Corporate lending			
	Stage 1	Stage 2	Stage 3	**Total**
Gross carrying amount as at 1 st January 2018	5,911,056	1,684,938	1,556,525	**9,152,520**
New assets originated or purchased	1,809,005	307,901	160,039	**2,276,945**
Assets derecognised or fully repaid (excluding receivables write offs)	(1,097,460)	(619,844)	(273,910)	**(1,991,214)**
Transfers to Stage 1	114,788	(114,788)	-	-
Transfers to Stage 2	(64,207)	65,877	(1,670)	-
Transfers to Stage 3	(345)	(148,008)	148,354	-
Changes to contractual cash flows due to modifications not resulting in derecognition and partial reimbursement	(34,618)	(87,552)	(87,642)	**(209,813)**
Receivables written off	-	-	(249,098)	**(249,098)**
Foreign exchange adjustments	2,156	265	684	**3,105**
Gross carrying amount as at 30 June 2018	**6,640,374**	**1,088,789**	**1,253,280**	**8,982,444**
Impairment allowance as at 1 st January 2018 (under IFRS 9)	64,207	217,809	1,239,315	**1,521,331**
New assets originated or purchased	22,750	19,014	117,676	**159,440**
Assets derecognised or fully repaid (excluding receivable	(5,224)	(28,210)	(189,886)	**(223,319)**
Movements not resulting from changes in classification	366	(35,962)	44,617	**9,021**
Movements due to change in classification	(11,295)	(29,705)	(27,576)	**(68,577)**
Receivables written off	-	-	(236,494)	**(236,494)**
Foreign exchange adjustments	10	18	633	**660**
Impairment allowance as at 30 June 2018	**70,813**	**142,964**	**948,285**	**1,162,063**

(Amounts in thousands RON)

7. Loans and advances to customers (continued)

	Total			
	Stage 1	Stage 2	Stage 3	**Total**
Gross carrying amount as at 1 st January 2018	20,071,243	7,659,106	2,545,419	**30,275,769**
New assets originated or purchased	4,455,325	597,593	201,293	**5,254,211**
Assets derecognised or fully repaid (excluding receivables write offs)	(2,026,947)	(952,362)	(329,826)	**(3,309,134)**
Transfers to Stage 1	1,625,990	(1,614,470)	(11,520)	**0**
Transfers to Stage 2	(1,024,133)	1,123,841	(99,708)	**0**
Transfers to Stage 3	(33,749)	(294,188)	327,937	**-**
Changes to contractual cash flows due to modifications not resulting in derecognition and partial reimbursement	(831,833)	(355,355)	(137,406)	**(1,324,594)**
Receivables written off	-	-	(281,792)	**(281,792)**
Foreign exchange adjustments	3,213	1,252	841	**5,306**
Gross carrying amount as at 30 June 2018	**22,239,109**	**6,165,417**	**2,215,239**	**30,619,766**
Impairment allowance as at 1 st January 2018 (under IFRS 9)	213,802	508,344	1,871,473	**2,593,620**
New assets originated or purchased	33,786	32,074	137,064	**202,924**
Assets derecognised or fully repaid (excluding receivable	(8,888)	(39,812)	(228,080)	**(276,780)**
Movements not resulting from changes in classification	(2,594)	(44,924)	115,273	**67,755**
Movements due to change in classification	(26,428)	(41,807)	(47,078)	**(115,313)**
Receivables written off	-	(0)	(265,138)	**(265,138)**
Foreign exchange adjustments	11	59	723	**793**
Impairment allowance as at 30 June 2018	**209,689**	**413,934**	**1,584,238**	**2,207,861**

Impaired loans

The gross value of the loans impaired for the Group is 2,303,172 (December 31, 2017: 2,610,299), while for the Bank is 2,215,239 (December 31, 2017: 2,534,919).

(Amounts in thousands RON)

8. 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. 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	
	Unaudited (*) June 30, 2018	December 31, 2017
Gross investment in finance lease:		
Under 1 year	338,348	323,877
Between 1 and 5 years	559,337	543,098
Higher than 5 years	10,798	16,333
	908,483	**883,308**
Unearned finance income	(67,079)	(61,949)
Net investment in finance lease	**841,404**	**821,359**
Net investment in finance lease:		
Under 1 year	307,326	295,727
Between 1 and 5 years	524,001	510,108
Higher than 5 years	10,077	15,524
	841,404	**821,359**

	Unaudited (*) June 30, 2018	December 31, 2017
Net investment in the lease	841,404	821,359
Accumulated allowance for uncollectible minimum lease payments receivable	(93,165)	(93,591)
Total	**748,238**	**727,768**

As at June 30, 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	
	June 30, 2018 Unaudited	December 31, 2017	June 30, 2018	December 31, 2017
Less than one year	1,571	1,444	1,571	1,444
Between one and five years	4,526	4,441	4,526	4,441
More than five years	3,601	4,156	3,601	4,156
	9,699	**10,041**	**9,699**	**10,041**

(*) Unaudited / unreviewed by the financial auditor

(Amounts in thousands RON)

9. 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 2f.

Details on the equity portfolio instruments is presented below:

	Group		Bank	
	Unaudited (*)			
	June 30, 2018	1 January, 2018	June 30, 2018	1 January, 2018
Equity investments	42,101	35,459	42,101	35,459
Other securities	40,050	63,342	15,741	41,661
Total	**82,151**	**98,802**	**57,842**	**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:

June 30, 2018 Unaudited (*)	Group Unit value RON	No of units	Market value
BRD Simfonia	40	512,562	20,673
BRD Obligatiuni	165	21,980	3,635
BRD Diverso	173	37,578	6,498
BRD Actiuni	186	44,358	8,257
BRD Index	152	6,514	987
Total			**40,050**

December 31, 2017	Group 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)

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

The Bank holds fund units in:

	Bank		
June 30, 2018	**Unit value RON**	**No of units**	**Market value**
BRD Diverso	173	37,578	6,497
BRD Actiuni	186	44,358	8,257
BRD Index	152	6,514	987
Total			**15,741**

	Bank		
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**

10. 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.

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.

(Amounts in thousands RON)

11. 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	261	-	435	2	24,743	25,441
Transfers	3,901	-	21,000	19,560	(44,461)	-
Disposals	(6,100)	-	(12,914)	(8,920)	(65)	(27,999)
as of June 30, 2018 Unaudited (*)	**1,320,104**	**29,239**	**249,432**	**564,193**	**35,536**	**2,198,504**
Depreciation and impairment:						
as of December 31, 2016	**(683,145)**	**(15,339)**	**(185,439)**	**(427,333)**	**-**	**(1,311,256)**
Depreciation	(43,212)	(1,390)	(23,135)	(25,407)	-	(93,144)
Impairment	(8,074)	-	-	(2,559)	-	(10,633)
Disposals	16,113	29	20,683	22,608	-	59,434
as of December 31, 2017	**(718,318)**	**(16,700)**	**(187,891)**	**(432,691)**	**-**	**(1,355,599)**
Depreciation	(20,623)	(693)	(13,107)	(14,362)	-	(48,785)
Impairment	321	-	-	(149)	-	172
Disposals	5,160	-	13,064	7,797	-	26,021
Transfers	723	-	-	(723)	-	-
as of June 30, 2018 Unaudited (*)	**(732,737)**	**(17,394)**	**(187,934)**	**(440,129)**	**-**	**(1,378,193)**
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**	**12,539**	**53,020**	**120,860**	**55,319**	**845,463**
as of June 30, 2018 Unaudited (*)	**587,367**	**11,845**	**61,498**	**124,064**	**35,536**	**820,311**

(*) Unaudited / unreviewed by the financial auditor

(Amounts in thousands RON)

11. 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	260	-	1	2	24,743	25,006
Transfers	3,901	-	21,000	19,560	(44,460)	0
Disposals	(6,100)	-	(12,902)	(8,779)	(65)	(27,846)
as of June 30, 2018	**1,310,003**	**29,243**	**238,348**	**563,732**	**35,535**	**2,176,861**
Depreciation and impairment:						
as of December 31, 2016	**(678,889)**	**(15,339)**	**(176,718)**	**(426,797)**	**-**	**(1,297,743)**
Depreciation	(42,971)	(1,390)	(22,277)	(25,334)	-	(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)**	**(178,826)**	**(432,165)**	**-**	**(1,341,512)**
Depreciation	(20,503)	(692)	(12,713)	(14,363)	-	(48,271)
Impairment	321	-	-	(149)	-	172
Disposals	5,160	-	12,901	7,807	-	25,868
Transfers	723	-	-	(723)	-	-
as of June 30, 2018	**(728,120)**	**(17,392)**	**(178,638)**	**(439,593)**	**-**	**(1,363,743)**
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**	**51,423**	**120,784**	**55,318**	**838,189**
as of June 30, 2018	**581,883**	**11,851**	**59,710**	**124,139**	**35,535**	**813,118**

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 15,322 as at June 30, 2018 (December 31, 2017: 16,014). The fair value has been determined based on a valuation by an independent valuer in 2017. Rental income from investment property of 917 (2017: 970) has been recognised in other income.

(Amounts in thousands RON)

12. 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 June 30, 2018, the branch had a number of 3,762 active customers (2017: 3,801), with loans representing approximately 14% from total loans managed by the network (2017: 14%) and with deposits representing about 17% 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.

13. Intangible assets

The balance of the intangible assets as of June 30, 2018 and December 31, 2017 represents mainly software. The amounts for Group as at June 30, 2018 were unaudited.

	Group	Bank
Cost:		
as of December 31, 2016	**406,899**	**376,719**
Additions	51,020	50,289
Disposals	(234)	(234)
as of December 31, 2017	**457,685**	**426,774**
Additions	30,168	30,011
Disposals	(38)	(38)
as of June 30, 2018	**487,815**	**456,747**
Amortization:		
as of December 31, 2016	**(316,649)**	**(290,649)**
Amortization expense	(34,633)	(32,838)
Disposals	5	(25)
as of December 31, 2017	**(351,278)**	**(323,512)**
Amortization expense	(18,530)	(17,551)
Disposals	3	-
as of June 30, 2018	**(369,805)**	**(341,063)**
Net book value:		
as of December 31, 2016	**90,250**	**86,070**
as of December 31, 2017	**106,407**	**103,262**
as of June 30, 2018	**118,010**	**115,684**

(Amounts in thousands RON)

14. Other assets

	Group		Bank	
	Unaudited (*) June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Advances to suppliers	58,134	50,508	-	-
Sundry receivable	180,516	221,514	172,701	212,579
Prepaid expenses	35,526	20,138	31,940	16,969
Repossessed assets	20,115	19,471	18,113	18,113
Other assets	6,650	8,436	6,025	7,687
Total	**300,941**	**320,067**	**228,779**	**255,348**

The sundry receivables balances includes various commissions, sundry debtors, dividends and are net of impairment allowance, which at Group level is 153,255 (December 31, 2017: 112,920) and at Bank level is 141,091 (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 June 30, 2018 the carrying value of repossessed assets for Group is 20,115 (December 31, 2017: 19,471). As of June 30, 2018 the carrying value of repossessed assets for Bank is 18,113 (December 31, 2017: 18,113), representing five residential buildings (December 31, 2017: five residential buildings).

15. Due to banks

	Group		Bank	
	Unaudited (*) June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Demand deposits	357,991	767,725	357,991	767,725
Term deposits	93,734	118,245	93,734	118,245
Due to banks	**451,725**	**885,970**	**451,725**	**885,970**

16. Due to customers

	Group		Bank	
	Unaudited (*) June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Demand deposits	28,238,426	27,565,993	28,265,431	27,707,427
Term deposits	16,013,584	16,653,693	16,028,655	16,679,881
Due to customers	**44,252,010**	**44,219,686**	**44,294,086**	**44,387,308**

(Amounts in thousands RON)

17. Borrowed funds

	Group Unaudited (*)		Bank	
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Borrowings from related parties	896,708	920,027	296	23,665
Borrowings from international financial institutions	292,637	332,203	19,952	24,640
Borrowings from other institutions	152	225	152	225
Total	**1,189,496**	**1,252,455**	**20,400**	**48,530**

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

18. 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 June 30, 2018 the Group has a current tax liability in total amount of 72,221 (December 31, 2017: 103,581).

The deferred tax liability/asset is reconciled as follows:

	Group June 30, 2018 Unaudited (*)				
	Temporary differences	Consolidated Statement of Financial Position Asset / (Liability)	Consolidated Income Statement (Expense) / Income	Consolidated OCI (Expense) / Income	Impact IFRS 9 (see note 2f)
Elements generating deferred tax					
Defined benefit obligation	5,487	878	-	(0)	-
Investments and other securities	238,058	38,089	(402)	44,806	4,589
Tangible and intangible assets	124,204	19,873	1,579	-	-
Provisions and other liabilities	548,745	87,798	2,452	-	(17,967)
Taxable items	**916,493**				
Deferred tax		**146,639**	**3,629**	**44,806**	**(13,377)**

(*) Unaudited / unreviewed by the financial auditor

(Amounts in thousands RON)

18. Taxation (continued)

Bank
June 30, 2018

	Temporary differences	Individual Statement of Financial Position Asset / (Liability)	Individual Income Statement (Expense) / Income	Consolidated OCI (Expense) / Income	Impact IFRS 9 (see note 2f)
Elements generating deferred tax					
Defined benefit obligation	5,487	878	-	(0)	-
Investments and other securities	230,126	36,820	-	44,807	4,589
Tangible and intangible assets	124,526	19,924	1,495	-	
Provisions and other liabilities	524,267	83,883	3,240	-	(22,111)
Taxable items	**884,405**				
Deferred tax		**141,505**	**4,735**	**44,807**	**(17,521)**

Group
December 31, 2017

	Temporary differences	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**

Bank
December 31, 2017

	Temporary differences	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**

(Amounts in thousands RON)

18. Taxation (continued)

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	(13,377)	(17,521)
Deferred tax recognized in other comprehensive income	44,806	44,806
Deferred tax recognized in profit and loss	3,629	4,735
Deferred tax asset, net as of June 30, 2018	**146,639**	**141,505**

Reconciliation of total tax charge

	Group		Bank	
	Unaudited (*) Six months ended June 30, 2018	Unaudited (*) Six months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
Profit before income tax	**895,966**	**891,016**	**900,460**	**886,287**
Income tax (16%)	143,355	142,563	144,074	141,806
Fiscal credit	(10,178)	(4,668)	(10,043)	(4,579)
Non-deductible elements	20,783	13,539	11,441	7,466
Non-taxable elements	(14,548)	(10,399)	(11,731)	(8,464)
Expense from income tax at effective tax rate	**139,411**	**141,035**	**133,741**	**136,229**
Effective tax rate	15.6%	15.8%	14.9%	15.4%

Recognition of deferred tax asset at Bank level of 141,505 is based on the management's profit forecasts, which indicates that it is probable that future tax profit will be available against which this asset can be utilised.

(*) Unaudited / unreviewed by the financial auditor

(Amounts in thousands RON)

19. Other liabilities

	Group Unaudited (*)		Bank	
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Sundry creditors	293,347	243,712	203,970	168,797
Other payables to State budget	29,851	37,021	28,169	35,588
Deferred income	25,811	19,949	25,807	19,942
Payables to employees	138,117	158,212	133,066	151,224
Financial guarantee and loan contracts provisions	291,357	419,585	316,485	447,154
Other provisions	73,239	79,470	71,183	77,591
Total	**851,722**	**957,949**	**778,680**	**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 39,826 as of June 30, 2018 (December 31, 2017: 55,842) and post-employment benefits amounting 80,633 as of June 30, 2018 (December 31, 2017: 78,480).

The movement in other provisions is as follows:

Group	
Carrying value as of December 31,2016	**19,486**
Additional expenses	75,907
Reversals of provisions	(15,923)
Carrying value as of December 31,2017	**79,471**
Additional expenses	6,435
Reversals of provisions	(12,666)
Carrying value as of June 30, 2018Unaudited (*)	**73,239**

Bank	
Carrying value as of December 31,2016	**16,608**
Additional expenses	74,846
Reversals of provisions	(13,863)
Carrying value as of December 31,2017	**77,591**
Additional expenses	6,258
Reversals of provisions	(12,666)
Carrying value as of June 30, 2018	**71,183**

(Amounts in thousands RON)

19. Other liabilities (continued)

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

Group	
Carrying value as of December 31,2016	**444,888**
Additional expenses	598,427
Reversals of provisions	(628,224)
Foreign exchange losses	4,494
Carrying value as of December 31,2017	**419,585**
IFRS 9 remesurament	(138,048)
Opening balance as of 1 January 2018	**281,537**
Additional expenses	250,380
Reversals of provisions	(240,863)
Foreign exchange losses	302
Carrying value as of June 30, 2018Unaudited (*)	**291,356**

Bank	
Carrying value as of December 31,2016	**474,031**
Additional expenses	596,853
Reversals of provisions	(628,224)
Foreign exchange losses	4,494
Carrying value as of December 31,2017	**447,154**
IFRS 9 remesurament	(138,193)
Opening balance as of 1 January 2018	**308,961**
Additional expenses	248,135
Reversals of provisions	(240,913)
Foreign exchange losses	302
Carrying value as of June 30, 2018	**316,485**

(*) Unaudited / unreviewed by the financial auditor

(Amounts in thousands RON)

19. Other liabilities (continued)

Group	**Retail lending**			
	Stage 1	Stage 2	Stage 3	**Total**
Gross exposure as at 1 st January 2018	1,409,480	93,154	15,146	**1,517,780**
New assets originated or purchased	201,939	14,922	93	**216,954**
Commitments derecognised or transferred into assets (excluding write offs)	(131,273)	(16,660)	(2,239)	**(150,173)**
Transfers to Stage 1	35,909	(33,563)	(2,346)	**(0)**
Transfers to Stage 2	(32,154)	33,782	(1,628)	**(0)**
Transfers to Stage 3	(5,694)	(3,193)	8,887	-
Changes to contractual cash flows due to modifications not resulting in derecognition	22,162	4,532	(3,210)	**23,484**
Foreign exchange adjustments	26	4	1	**31**
Gross exposure as at 30 June 2018 Unaudited	**1,500,394**	**92,978**	**14,704**	**1,608,076**
Provision as at 1 st January 2018 (under IFRS 9)	686	1,533	3,027	**5,246**
New assets originated or purchased	730	425	9	**1,163**
Assets derecognised or transferred into assets (excluding write offs)	(127)	(133)	(394)	**(654)**
Movements not resulting from changes in classification	186	68	46	**300**
Movements due to change in classification	5,188	(450)	(631)	**4,107**
Provision as at 30 June 2018 Unaudited	**6,662**	**1,443**	**2,057**	**10,163**

	Corporate lending			
	Stage 1	Stage 2	Stage 3	**Total**
Gross exposure as at 1 st January 2018	7,391,547	1,517,480	226,886	**9,135,913**
New assets originated or purchased	1,563,001	220,974	12,981	**1,796,956**
Commitments derecognised or transferred into assets (excluding write offs)	(1,816,419)	(705,329)	(40,406)	**(2,562,154)**
Transfers to Stage 1	69,370	(69,335)	(35)	**(0)**
Transfers to Stage 2	(10,718)	11,381	(663)	-
Transfers to Stage 3	(457)	(79,887)	80,344	-
Changes to contractual cash flows due to modifications not resulting in derecognition	(409,373)	(25,079)	(13,978)	**(448,429)**
Foreign exchange adjustments	2,722	2,004	442	**5,168**
Gross exposure as at 30 June 2018 Unaudited	**6,789,673**	**872,210**	**265,573**	**7,927,455**
Provision as at 1 st January 2018 (under IFRS 9)	20,143	123,772	132,376	**276,291**
New assets originated or purchased	8,356	4,099	1,861	**14,315**
Commitments derecognised or transferred into assets (excluding write offs)	(2,989)	(4,545)	(18,682)	**(26,216)**
Movements not resulting from changes in classification	4,832	6,108	(1,228)	**9,713**
Movements due to change in classification	5,688	(28,979)	30,082	**6,791**
Foreign exchange adjustments	8	71	221	**300**
Provision as at 30 June 2018 Unaudited	**36,039**	**100,526**	**144,629**	**281,194**

(Amounts in thousands RON)

19. Other liabilities (continued)

	Total			
	Stage 1	Stage 2	Stage 3	**Total**
Gross exposure as at 1 st January 2018	8,801,026	1,610,635	242,032	**10,653,693**
New assets originated or purchased	1,764,940	235,896	13,075	**2,013,911**
Commitments derecognised or transferred into assets (excluding write offs)	(1,947,692)	(721,990)	(42,645)	**(2,712,327)**
Transfers to Stage 1	105,278	(102,898)	(2,381)	**(0)**
Transfers to Stage 2	(42,872)	45,163	(2,291)	**(0)**
Transfers to Stage 3	(6,152)	(83,080)	89,231	-
Changes to contractual cash flows due to modifications not resulting in derecognition	(387,211)	(20,547)	(17,187)	**(424,945)**
Foreign exchange adjustments	2,748	2,009	443	**5,200**
Gross exposure as at 30 June 2018 Unaudited	**8,290,067**	**965,188**	**280,277**	**9,535,532**
Provision as at 1 st January 2018 (under IFRS 9)	20,829	125,306	135,403	**281,537**
New assets originated or purchased	9,086	4,524	1,869	**15,479**
Commitments derecognised or transferred into assets (excluding write offs)	(3,116)	(4,678)	(19,076)	**(26,870)**
Movements not resulting from changes in classification	5,018	6,176	(1,181)	**10,013**
Movements due to change in classification	10,875	(29,429)	29,451	**10,898**
Foreign exchange adjustments	8	71	221	**300**
Provision as at 30 June 2018 Unaudited	**42,700**	**101,970**	**146,687**	**291,357**

(Amounts in thousands RON)

19. Other liabilities (continued)

Bank

	Retail lending			
	Stage 1	Stage 2	Stage 3	Total
Gross exposure as at 1 st January 2018	1,047,988	84,740	6,455	**1,139,184**
New assets originated or purchased	169,138	14,636	30	**183,804**
Commitments derecognised or transferred into assets (excluding write offs)	(88,897)	(15,203)	(805)	**(104,905)**
Transfers to Stage 1	31,055	(30,141)	(915)	**(0)**
Transfers to Stage 2	(25,300)	26,771	(1,472)	-
Transfers to Stage 3	(545)	(386)	932	-
Changes to contractual cash flows due to modifications not resulting in derecognition	(8,097)	4,211	(475)	**(4,361)**
Foreign exchange adjustments	26	4	1	**31**
Gross exposure as at 30 June 2018	**1,125,368**	**84,633**	**3,752**	**1,213,752**
Provision as at 1 st January 2018 (under IFRS 9)	686	1,533	3,027	**5,246**
New assets originated or purchased	730	425	9	**1,163**
Commitments derecognised or transferred into assets (excluding write offs)	(127)	(133)	(394)	**(654)**
Movements not resulting from changes in classification	186	68	46	**300**
Movements due to change in classification	5,188	(450)	(631)	**4,107**
Provision as at 30 June 2018	**6,662**	**1,443**	**2,057**	**10,163**

	Corporate lending			
	Stage 1	Stage 2	Stage 3	Total
Gross exposure as at 1 st January 2018	7,405,160	1,517,480	226,886	**9,149,527**
New assets originated or purchased	1,558,398	220,974	12,981	**1,792,354**
Commitments derecognised or transferred into assets (excluding write offs)	(1,810,809)	(705,329)	(40,406)	**(2,556,544)**
Transfers to Stage 1	69,370	(69,335)	(35)	**(0)**
Transfers to Stage 2	(10,718)	11,381	(663)	-
Transfers to Stage 3	(457)	(79,887)	80,344	-
Changes to contractual cash flows due to modifications not resulting in derecognition	(409,373)	(25,079)	(13,978)	**(448,429)**
Foreign exchange adjustments	2,722	2,004	442	**5,168**
Gross exposure as at 30 June 2018	**6,804,293**	**872,210**	**265,573**	**7,942,075**
Provision as at 1 st January 2018 (under IFRS 9)	20,143	123,772	159,801	**303,716**
New assets originated or purchased	8,356	4,099	1,861	**14,315**
Commitments derecognised or transferred into assets (excluding write offs)	(2,989)	(4,545)	(20,980)	**(28,513)**
Movements not resulting from changes in classification	4,832	6,108	(1,228)	**9,713**
Movements due to change in classification	5,688	(28,979)	30,082	**6,791**
Foreign exchange adjustments	8	71	221	**300**
Provision as at 30 June 2018	**36,039**	**100,526**	**169,757**	**306,322**

(Amounts in thousands RON)

19. Other liabilities (continued)

	Total			
	Stage 1	Stage 2	Stage 3	**Total**
Gross exposure as at 1 st January 2018	8,453,148	1,602,221	233,342	**10,288,711**
New assets originated or purchased	1,727,536	235,610	13,012	**1,976,157**
Commitments derecognised or transferred into assets (excluding write offs)	(1,899,707)	(720,532)	(41,211)	**(2,661,450)**
Transfers to Stage 1	100,425	(99,475)	(950)	**(0)**
Transfers to Stage 2	(36,018)	38,152	(2,134)	-
Transfers to Stage 3	(1,003)	(80,273)	81,276	-
Changes to contractual cash flows due to modifications not resulting in derecognition	(417,470)	(20,868)	(14,452)	**(452,790)**
Foreign exchange adjustments	2,748	2,009	443	**5,200**
Gross exposure as at 30 June 2018	**7,929,660**	**956,843**	**269,325**	**9,155,828**
Provision as at 1 st January 2018 (under IFRS 9)	20,829	125,306	162,828	**308,962**
New assets originated or purchased	9,086	4,524	1,869	**15,479**
Commitments derecognised or transferred into assets (excluding write offs)	(3,116)	(4,678)	(21,374)	**(29,167)**
Movements not resulting from changes in classification	5,018	6,176	(1,181)	**10,013**
Movements due to change in classification	10,875	(29,429)	29,451	**10,898**
Foreign exchange adjustments	8	71	221	**300**
Provision as at 30 June 2018	**42,700**	**101,970**	**171,814**	**316,485**

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 six months ended 30 June 2018, the movements in service cost and benefits paid from defined benefit obligation resulted in not significant change of obligation carrying value compared to 31 December 2017, 80,633 as of June 30, 2018 and 78,480 as of December 31, 2017.

20. 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 June 30, 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)

21. Interest and similar income

	Group		Bank	
	Unaudited (*) Six months ended June 30, 2018	Unaudited (*) Six months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
Interest on loans	820,379	737,210	754,155	676,912
Interest on deposit with banks	21,721	5,969	21,369	5,382
Interest on available for sale/ interest on fair value through other comprehensive income	168,150	156,760	168,150	156,760
Interest from hedging instruments	2,418	2,950	2,418	2,950
Total	**1,012,668**	**902,889**	**946,092**	**842,004**

The interest income on loans includes the accrued interest on net (after impairment allowance) impaired loans in amount of 39,117 for Group and 35,132 for Bank (2017: 68,485 for Group and 48,114 for Bank).

22. Interest and similar expense

	Group		Bank	
	Unaudited (*) Six months ended June 30, 2018	Unaudited (*) Six months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
Interest on term deposits	49,333	56,124	49,872	57,403
Interest on demand deposits	17,451	11,677	17,461	11,684
Interest on borrowings	8,392	6,969	183	977
Total	**75,176**	**74,770**	**67,516**	**70,064**

23. Fees and commissions, net

	Group		Bank	
	Unaudited (*) Six months ended June 30, 2018	Unaudited (*) Six months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
Services	317,043	307,057	312,129	300,409
Management fees	57,148	54,285	57,148	54,285
Packages	24,940	24,607	24,940	24,607
Transfers	53,829	53,257	53,829	53,257
OTC withdrawal	31,020	31,756	31,020	31,756
Cards	100,559	97,641	100,559	97,641
Brokerage and custody	17,117	14,204	17,117	14,204
Other	32,430	31,307	27,516	24,659
Loan activity	47,673	45,639	34,886	34,193
Off balance sheet	14,557	14,691	14,557	14,691
Total	**379,273**	**367,387**	**361,572**	**349,293**

(*) Unaudited / unreviewed by the financial auditor

(Amounts in thousands RON)

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

	Group		Bank	
	Unaudited (*)	Unaudited (*)		
	Six months ended June 30, 2018	Six months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
FX position revaluation	18,001	15,445	18,001	15,445
FX Spot	83,334	99,793	82,858	99,440
Derivative financial instruments	**39,011**	**9,188**	**39,011**	**8,975**
Gain on instruments held for trading	9,876	7,741	9,876	7,528
Gain / (loss) on interest rate derivatives	(12,667)	54,614	(12,667)	54,614
Gain/ (loss) on currency and interest swap	13,308	(52,135)	13,308	(52,135)
Gain/ (loss) on forward foreign exchange contracts	27,648	(4,785)	27,648	(4,785)
Gain on currency options	1,857	3,139	1,857	3,139
Gain / (loss) on hedging	(590)	(705)	(590)	(705)
Other	(421)	1,319	(421)	1,319
Gain/ (loss) on derivative, other financial instruments held for trading and foreign exchange	**140,346**	**124,426**	**139,869**	**123,860**

25. Other income

Other income includes dividends from subsidiaries in amount of 32,913 as of June 30, 2018 (June 30, 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 917 (2017: 970).

26. 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.

For the first 6 months of 2018 the expense related to the Deposit Guarantee Fund amounts to 14,487 (for the period ended June 30, 2017: 6,907).

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)

26. 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 first 6 months of 2018 the expense related to the Bank Resolution Fund amounts to 20,694 (for the period ended June 30, 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, respectively January 1st.

27. Personnel expenses

	Group		Bank	
	Unaudited (*) Six months ended June 30, 2018	Unaudited (*) Six months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
Salaries	336,582	252,173	315,529	235,880
Social security	8,656	61,120	7,809	57,595
Bonuses	26,163	22,341	24,963	21,316
Post-employment benefits	2,153	1,803	2,153	1,803
Other	4,334	1,957	2,858	786
Total	**377,888**	**339,394**	**353,312**	**317,380**

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

	Group		Bank	
	Unaudited (*) Six months ended June 30, 2018	Unaudited (*) Six months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
Depreciation and impairment	47,920	45,402	47,406	44,786
Amortisation	18,530	17,033	17,551	16,082
Total	**66,450**	**62,435**	**64,957**	**60,868**

The difference as at June 30, 2018 between the amount presented in note 11 and the amount presented in note 28 represents depreciation of investment property in total amount of 693 (June 30, 2017: 697).

(*) Unaudited / unreviewed by the financial auditor

(Amounts in thousands RON)

29. Other operating expense

	Group		Bank	
	Unaudited (*)	Unaudited (*)		
	Six months ended June 30, 2018	Six months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
Administrative expenses	207,639	201,208	194,748	188,795
Publicity and sponsorships	16,496	12,500	16,170	12,227
Other expenses	34,790	31,789	32,504	28,813
Total	**258,925**	**245,497**	**243,422**	**229,835**

Administrative expenses refer mainly to rentals, maintenance expenses, local taxes and various utilities such as energy and telecommunication.

The Group and Bank has operating leases that are cancellable with prior notice 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 33.

Other expenses include mainly corporate and technical assistance with Societe Generale Paris, audit fees, etc.

30. Cost of risk

	Group		Bank	
	Unaudited (*)	Unaudited (*)		
	Six months ended June 30, 2018	Six months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
Net impairment allowance for loans	(62,096)	56,229	(72,333)	46,299
Net impairment allowance for sundry debtors	22,113	38,985	22,564	40,717
Net impairment allowance for finance lease	(2,785)	857	-	-
Income from recoveries of derecognized receivables	(119,544)	(392,911)	(119,544)	(386,213)
Write-offs & sales of bad debts	2,685	29,987	4,512	26,221
Financial guarantee and loan contracts provisions	7,164	(3,011)	7,222	(3,011)
Net impairment allowance for debt securities	(1,921)	-	(1,921)	-
	(154,384)	**(269,863)**	**(159,501)**	**(275,986)**

Net cost of risk registered a RON 160 million net release, RON 116 million lower than 2017, mainly due to the recognition of a smaller amount for insurance indemnities and reduced sales of non-performing loans.

(Amounts in thousands RON)

31. Cash and cash equivalents for cash flow purposes

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 218,718 (December 31, 2017: 176,714) and loans to banks, with more than 90 days maturity from the date of acquisition in amount of 76,524 (December 31, 2017: 73,266) for the Bank and also the ones amounting 94,596 (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

	Unaudited (*) June 30, 2018	Unaudited (*) June 30, 2017
Cash in hand	1,709,596	1,712,520
Current accounts and deposits with banks	4,064,214	2,553,399
Total	**5,773,810**	**4,265,919**

Bank

	June 30, 2018	June 30, 2017
Cash in hand	1,709,591	1,712,494
Current accounts and deposits with banks	4,064,172	2,553,395
Total	**5,773,763**	**4,265,889**

32. 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.

Credit related commitments

Financing 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.

(*) Unaudited / unreviewed by the financial auditor

(Amounts in thousands RON)

32. Guarantees and other credit commitments (continued)

	Group		Bank	
	Unaudited (*) June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Letters of guarantee granted	5,099,576	5,257,706	5,128,640	5,291,373
Financing commitments granted	4,435,956	5,395,987	4,027,188	4,997,338
Total commitments granted	**9,535,532**	**10,653,693**	**9,155,828**	**10,288,711**
Letters of guarantee received	14,148,683	15,450,515	14,148,683	15,450,515
Financing commitments received	699,165	698,955	699,165	698,955
Total commitments received	**14,847,848**	**16,149,470**	**14,847,848**	**16,149,470**

33. Other commitments

	Group		Bank	
	Unaudited (*) June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Tangible non-current assets	3,519	3,093	3,519	3,093
Intangible non-current assets	10,926	8,002	10,926	8,002
Operational leasing, rents and other services	473,394	427,747	473,394	427,747
Total	**487,839**	**438,842**	**487,839**	**438,842**

As at June 30, 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	
	June 30, 2018 Unaudited	December 31, 2017	June 30, 2018	December 31, 2017
Less than one year	80,068	75,574	80,068	75,574
Between one and five years	237,013	199,145	237,013	199,145
More than five years	152,381	149,927	152,381	149,927
	469,462	**424,647**	**469,462**	**424,647**

(*) Unaudited / unreviewed by the financial auditor

(Amounts in thousands RON)

34. 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 Unaudited (*)				2017			
	Parent	Other related parties	Associates	Key management of the institution	Parent	Other related parties	Associates	Key management of the institution
Assets	**210,397**	**60,323**	**12,286**	**1,624**	**184,222**	**72,334**	**6,542**	**2,045**
Nostro accounts	18,843	49,909	129	-	22,906	49,464	209	-
Deposits	18,072	-	-	-	19,035	-	-	-
Loans	76,524	10,289	9,441	1,621	73,266	22,687	3,121	2,042
Derivative financial instruments	96,687	-	-	3	65,776	-	-	3
Other assets	271	125	2,716	-	3,240	183	3,212	-
Liabilities	**1,153,495**	**136,346**	**106,384**	**13,557**	**1,568,160**	**116,356**	**113,415**	**12,101**
Loro accounts	431	14,806	2,295	-	2,036	74,278	2,384	-
Deposits	130,265	120,922	103,822	13,557	506,382	41,263	110,370	12,095
Borrowings	896,707	-	-	-	920,028	-	-	-
Derivative financial instruments	74,422	-	-	-	102,199	-	-	-
Other liabilities	51,670	618	267	-	37,515	815	662	6
Commitments	**9,232,229**	**17,502**	**4,576**	**444**	**7,578,705**	**75,922**	**5,553**	**478**
Total commitments granted	128,851	8,166	2,012	327	101,461	8,679	2,012	362
Total commitments received	990,336	9,336	2,564	-	860,774	67,243	3,541	-
Notional amount of foreign exchange transactions	4,445,846	-	-	117	4,823,576	-	-	-
Notional amount of interest rate derivatives	3,667,196	-	-	-	1,792,894	-	-	116
Income statement	**(52,165)**	**(1,494)**	**15,155**	**21**	**(83,421)**	**3,613**	**21,818**	**26**
Interest and commision revenues	5,709	1,362	6,642	38	7,722	1,112	6,701	57
Interest and commission expense	9,864	1,124	241	17	8,378	535	61	32
Net gain/(loss) on interest rate derivatives	(26,444)	-	-	(0)	(3,333)	-	-	-
Net gain on foreign exchange derivatives	34,844	(40)	-	-	(56,256)	(113)	-	-
Dividend income	-	-	17,984	-	-	3	19,420	-
Other income	741	109	3,712	-	909	103	2,983	-
Other expenses	57,150	1,801	12,942	-	24,084	(3,043)	7,226	-

(*) Unaudited / unreviewed by the financial auditor

(Amounts in thousands RON)

34. 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	**192,325**	**60,323**	**42,157**	**10,394**	**1,378**	**165,187**	**72,334**	**44,756**	**3,852**	**2,045**
Nostro accounts	18,843	49,909	-	129	-	22,906	49,464	-	209	-
Deposits	-	-	-	-	-	-	-	-	-	-
Loans	76,524	10,289	40,959	9,441	1,376	73,266	22,687	43,306	3,121	2,042
Derivative financial instruments	96,687	-	-	-	3	65,776	-	3	-	3
Other assets	271	125	1,198	824	-	3,240	183	1,447	522	-
Liabilities	**255,885**	**136,332**	**42,400**	**106,349**	**11,110**	**647,477**	**116,339**	**191,343**	**113,375**	**12,101**
Loro accounts	431	14,806	-	2,295	-	2,036	74,278	-	2,384	-
Deposits	130,265	120,922	42,076	103,822	11,110	506,382	41,263	167,626	110,370	12,095
Lease payable	-	-	296	-	-	-	-	23,665	-	-
Derivative financial instruments	74,422	-	-	-	-	102,199	-	-	-	-
Other liabilities	50,767	604	28	232	-	36,860	798	52	621	6
Commitments	**9,232,229**	**17,502**	**25,157**	**4,576**	**419**	**7,578,705**	**75,922**	**27,622**	**5,553**	**478**
Total commitments granted	128,851	8,166	25,157	2,012	302	101,461	8,679	25,616	2,012	362
Total commitments received	990,336	9,336	-	2,564	-	860,774	67,243	-	3,541	-
Notional amount of foreign exchange transactions	4,445,846	-	-	-	117	4,823,576	-	2,006	-	-
Notional amount of interest rate derivatives	3,667,196	-	-	-	-	1,792,894	-	-	-	116
Income statement	**(44,529)**	**(1,880)**	**46,106**	**9,625**	**19**	**(77,124)**	**3,264**	**34,469**	**16,194**	**26**
Interest and commision revenues	5,357	879	12,998	162	33	7,134	678	11,023	182	57
Interest and commission expense	2,280	1,124	718	241	13	2,024	535	1,568	61	32
Net gain/(loss) on interest rate derivatives	(26,444)	-	-	-	(0)	(3,333)	-	-	-	-
Net gain on foreign exchange derivatives	34,844	(40)	(1)	-	-	(56,256)	(113)	(216)	-	-
Dividend income	-	-	32,913	17,984	-	-	3	24,603	19,420	-
Other income	741	109	1,095	3,670	-	909	103	1,184	2,948	-
Other expenses	56,746	1,704	181	11,950	-	23,553	(3,129)	557	6,296	-

(Amounts in thousands RON)

34. 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 53,105 as at June 30, 2018 (December 31, 2017: 24,788).

As of June 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	
	Six months ended June 30, 2018	Six months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
Short-term benefits	6,730	7,752	4,631	5,462
Long-term benefits	1,900	2,206	1,717	2,206

35. Contingencies

As of June 30, 2018 BRD is the defendant in a number of lawsuits arising in the course of business, amounting to approximately 764,051 (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 8,484 (December 31, 2017: 18,576) and the Group 10,540 (December 31, 2017: 20,456) in relation with the litigations.

36. 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 June 30, 2018 and June 30, 2017 there were no dilutive equity instruments issued by the Group and Bank.

	Group		Bank	
	Unaudited (*) Six months ended June 30, 2018	Unaudited (*) Six months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
Ordinary shares on market	696,901,518	696,901,518	696,901,518	696,901,518
Profit attributable to shareholders	752,115	744,119	766,719	750,058
Earnings per share (in RON)	1.0792	1.0678	1.1002	1.0763

(*) Unaudited / unreviewed by the financial auditor

37. 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)

37. Fair value (continued)

	Group				Bank			
	June 30, 2018 Unaudited (*)				June 30, 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	-	82,977	-	82,977	-	82,978	-	82,978
Currency swaps	-	11,626	-	11,626	-	11,626	-	11,626
Forward foreign exchange contracts	-	7,939	-	7,939	-	7,939	-	7,939
Options	-	-	49,968	49,968	-	-	49,968	49,968
	-	**102,542**	**49,968**	**152,510**	**-**	**102,543**	**49,968**	**152,511**
Financial assets at fair value through other comprehensive income	11,692,770	-	-	11,692,770	11,692,770	-	-	11,692,770
Equity investments (listed)	2,830	-	-	2,830	2,830	-	-	2,830
Equity investments (not listed)	-	-	39,270	39,270	-	-	39,270	39,270
Other securities quoted	40,050	-	-	40,050	15,741	-	-	15,741
Total	**11,735,650**	**-**	**39,270**	**11,774,921**	**11,711,341**	**-**	**39,270**	**11,750,612**
Other financial instruments held for trading	2,002,411	-	-	2,002,411	2,002,411	-	-	2,002,411
Total	**13,738,061**	**102,542**	**89,238**	**13,929,841**	**13,713,752**	**102,543**	**89,238**	**13,905,534**
Assets for which fair value is disclosed								
Cash in hand	1,709,596	-	-	1,709,596	1,709,591	-	-	1,709,591
Due from Central Bank	2,510,064	-	-	2,510,064	2,510,064	-	-	2,510,064
Due from banks	4,377,527	-	-	4,377,527	4,359,414	-	-	4,359,414
Loans and advances to customers	-	-	29,165,104	29,165,104	-	-	28,616,669	28,616,669
Financial lease receivables	-	-	744,914	744,914	-	-	-	-
Total	**8,597,187**	**-**	**29,910,018**	**38,507,205**	**8,579,069**	**-**	**28,616,669**	**37,195,738**

The accompanying notes are an integral part of this interim financial statements

(*) Unaudited / unreviewed by the financial auditor

(Amounts in thousands RON)

37. Fair value (continued)

	Group				Bank			
	June 30, 2018 Unaudited (*)				June 30, 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	-	45,703	-	45,703	-	45,703	-	45,703
Currency swaps	-	10,817	-	10,817	-	10,817	-	10,817
Forward foreign exchange contracts	-	4,138	-	4,138	-	4,138	-	4,138
Options	-	-	50,733	50,733	-	-	50,733	50,733
Total	**-**	**60,658**	**50,733**	**111,391**	**-**	**60,658**	**50,733**	**111,391**
Other financial instruments held for trading	345,531	-	-	345,531	345,531	-	-	345,531
Total	**345,531**	**60,658**	**50,733**	**456,922**	**345,531**	**60,658**	**50,733**	**456,922**
Liabilities for which fair value is disclosed								
Due to banks	451,725	0	-	451,725	451,725	-	-	451,725
Due to customers	-	44,251,342	-	44,251,342	-	44,293,418	-	44,293,418
Borrowed funds	1,189,496	0	-	1,189,496	20,400		-	20,400
Total	**1,641,221**	**44,251,342**	**-**	**45,892,563**	**472,125**	**44,293,418**	**-**	**44,765,543**

(*) Unaudited / unreviewed by the financial auditor

(Amounts in thousands RON)

37. 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)

37. 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
Subordinated debt	-	-	-	-	-	-	-	-
Total	**2,138,425**	**44,220,105**	**-**	**46,358,530**	**934,500**	**44,387,729**	**-**	**45,322,229**

37. 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.

37. 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 and customers 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)

37. Fair value (continued)

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

	Group				Bank			
	June 30, 2018 Unaudited (*)		December 31, 2017		June 30, 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	1,709,596	1,709,596	1,924,214	1,924,214	1,709,591	1,709,591	1,924,188	1,924,188
Due from Central Bank	2,510,064	2,510,064	5,757,953	5,757,953	2,510,064	2,510,064	5,757,953	5,757,953
Due from banks	4,377,527	4,377,527	2,549,512	2,549,512	4,359,414	4,359,414	2,530,468	2,530,468
Loans and advances to customers	29,049,424	29,165,104	29,608,422	29,756,635	28,411,905	28,616,669	29,011,925	29,261,379
Financial lease receivables	748,238	744,914	727,768	727,965	-	-	-	-
	38,394,849	**38,507,205**	**40,567,869**	**40,716,278**	**36,990,974**	**37,195,738**	**39,224,534**	**39,473,988**
Financial liabilities								
Due to banks	451,725	451,725	885,970	885,970	451,725	451,725	885,970	885,970
Due to customers	44,252,010	44,251,342	44,219,686	44,220,105	44,294,086	44,293,418	44,387,308	44,387,729
Borrowed funds	1,189,496	1,189,496	1,252,455	1,252,455	20,400	20,400	48,530	48,530
	45,893,231	**45,892,563**	**46,358,111**	**46,358,530**	**44,766,211**	**44,765,543**	**45,321,808**	**45,322,229**

(*) Unaudited / unreviewed by the financial auditor

(Amounts in thousands RON)

37. 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	-	26,893	26,893
Sales		(3,042)	(3,042)
Reimbursements	-	(17,061)	(17,061)
Gain losses from change in fair value	6,458	(3,012)	(2,325)
Translation differences	490	-	-
Closing balance as at June 30, 2018	**39,270**	**49,968**	**50,733**

38. Subsequent events

No subsequent event was identified after the reporting date.