Banca Transilvania S.A.

CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

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

For the year ended 31 December 2018

Banca Transilvania S.A.

CONTENTS

Consolidated and Separate Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December

	Notes	Group		Bank	
		2018 *RON thousand*	**2017** *RON thousand*	**2018** *RON thousand*	**2017** *RON thousand*
Interest income		3,182,049	2,102,621	2,855,070	2,018,571
Interest expense		(432,500)	(211,802)	(377,162)	(210,122)
Net interest income	8	**2,749,549**	**1,890,819**	**2,477,908**	**1,808,449**
Fee and commission income		1,029,941	744,313	923,948	704,571
Fee and commission expense		(252,233)	(143,800)	(229,276)	(149,905)
Net fee and commission income	9	**777,708**	**600,513**	**694,672**	**554,666**
Net trading income	10	252,163	278,339	263,448	223,667
Net loss from the sale of financial assets available-for-sale	11	-	(3,206)	-	(4,102)
Net loss from financial assets measured at fair value through other items of comprehensive income	11	(7,555)	-	(7,774)	-
Net loss from financial assets which are required to be measured at fair value through profit and loss	12	(2,570)	-	(40,529)	-
Contribution to the Bank Deposit Guarantee Fund and to the Resolution Fund	13	(41,423)	(49,696)	(39,164)	(49,696)
Other operating income	14	217,591	173,823	245,419	116,196
Operating income		**3,945,463**	**2,890,592**	**3,593,980**	**2,649,180**
Net expense (-) / income from impairment allowance, expected losses on assets, provisions for other risks and loan commitments	15	(364,421)	(29,221)	(230,791)	1,353
Personnel expenses	16	(1,065,162)	(763,227)	(965,972)	(715,390)
Depreciation and amortization		(162,514)	(125,024)	(129,250)	(90,106)
Other operating expenses	17	(806,615)	(530,498)	(697,351)	(466,537)
Operating expenses		**(2,398,712)**	**(1,447,970)**	**(2,023,364)**	**(1,270,680)**
Bargain gain	50.51	160,077	-	71,830	-
Profit before income tax		**1,706,828**	**1,442,622**	**1,642,446**	**1,378,500**
Expense tax (-)	18	(446,148)	(200,154)	(423,055)	(192,521)

Consolidated and Separate Statement of Profit or Loss and Other Comprehensive Income *(continued)*

For the year ended 31 December

	Notes	Group 2018 RON thousand	Group 2017 RON thousand	Bank 2018 RON thousand	Bank 2017 RON thousand
Profit for the year		**1,260,680**	**1,242,468**	**1,219,391**	**1,185,979**
Profit of the Group attributable to:					
Equity holders of the Bank		1,249,740	1,239,452	-	-
Non-controlling interests		10,940	3,016	-	-
Profit for the year		**1,260,680**	**1,242,468**	**1,219,391**	**1,185,979**
Profit for the year		**1,260,680**	**1,242,468**	**1,219,391**	**1,185,979**
Items that will not be reclassified as profit or loss, net of tax		**1,999**	**1,671**	**1,898**	**1,537**
Increase from fixed asset revaluation		2,236	2,245	2,216	2,245
Other elements of comprehensive income		143	(256)	44	(415)
Tax related to items that will not be classified to profit or loss		(380)	(318)	(362)	(293)
Items which are or may be reclassified to profit or loss					
Fair value reserve (available-for-sale financial instruments), of which:		**-**	**3,025**	**-**	**49,269**
Net gain / loss (-) from transactions with available-for-sale financial instruments, transferred to profit and loss account		-	3,206	-	4,102
Fair value changes of financial assets available-for-sale		-	(181)	-	45,167
Fair value reserve (financial assets measured through other items of comprehensive income), of which:		**(75,308)**	**-**	**(75,297)**	**-**
Net gain / loss (-) from transactions with financial assets measured through other items of comprehensive income, transferred to profit and loss account		7,555	-	7,774	-
Fair value changes of financial assets measured through other items of comprehensive income		(82,863)	-	(83,071)	-
Income tax on items which may be reclassified to profit or loss		**12,528**	**(485)**	**12,518**	**(7,883)**

Consolidated and Separate Statement of Profit or Loss and Other Comprehensive Income *(continued)*

For the year ended 31 December

		Group		Bank	
	Notes	2018	2017	2018	2017
		RON thousand	*RON thousand*	*RON thousand*	*RON thousand*
Total comprehensive income for the period		**1,199,899**	**1,246,679**	**1,158,510**	**1,228,902**
Total comprehensive income attributable to:					
Equity holders of the Bank		1,188,959	1,243,663	-	-
Non-controlling interest		10,940	3,016	-	-
Total comprehensive income for the period		**1,199,899**	**1,246,679**	**1,158,510**	**1,228,902**
Basic earnings per share		**0.2602**	**0.2584**	**-**	**-**
Diluted earnings per share		**0.2598**	**0.2581**	**-**	**-**

The financial statements were approved by the Board of Directors on March 21, 2019 and were signed on its behalf by:

Horia Ciorcilă
Chairman

George Călinescu
Deputy CEO

Consolidated and Separate Statement of Financial Position

As at 31 December		Group		Bank	
	Note	2018	2017	2018	2017
Assets		*RON thousand*	*RON thousand*	*RON thousand*	*RON thousand*
Cash and cash equivalents with the National Bank	19	10,322,121	6,637,725	9,083,471	6,637,692
Derivatives	48	3,066	9,854	3,066	9,854
Financial assets held for trading and measured at fair value through profit and loss	21	210,461	-	12,582	-
Financial assets which are required to be measured at fair value through profit or loss	21	456,127	-	609,638	-
Financial assets at fair value through profit and loss		-	264,996	-	73,281
Financial assets measured at fair value through other items of comprehensive income	24	21,374,708	-	21,363,908	-
- of which pledged securities (repo agreements)		248,798	-	248,798	-
Financial assets available-for-sale	24	-	15,821,300	-	16,032,612
- of which pledged securities (repo agreements)		-	258,540	-	258,540
Financial assets at amortized cost - of which:	24	44,392,876	35,831,353	41,598,554	35,428,244
- Placements with banks	20	4,650,137	5,125,282	4,000,416	5,079,500
- Loans and advances to customers	22	36,796,502	29,286,886	36,355,974	29,737,293
- Finance lease receivables	23	1,020,582	785,330	-	-
- Debt instruments		1,082,418	222,792	431,099	222,792
- Other financial assets	29	843,237	411,063	811,065	388,659
Equity investments	25	-	-	537,677	156,631
Property and equipment and investment property	26	593,903	633,668	482,321	407,649
Intangible assets	27	283,219	133,255	253,847	125,761
Goodwill	27	4,295	2,774	-	-
Current tax assets		-	146,858	-	148,594
Deferred tax assets	28	73,920	187,145	48,687	173,243
Other non-financial assets	30	182,058	136,041	125,163	108,514
Total assets		**77,896,754**	**59,804,969**	**74,118,914**	**59,302,075**

The explanatory notes to the financial statements from page 10 to page 183 are an integral part of these financial statements.

Consolidated and Separate Statement of Financial Position

As at 31 December	Notes	Group		Bank	
		2018	2017	2018	2017
Liabilities		*RON thousand*	*RON thousand*	*RON thousand*	*RON thousand*
Deposits from banks	31	195,348	127,946	207,608	127,946
Deposits from customers	32	65,160,466	48,932,195	62,522,369	49,099,201
Loans from banks and other financial institutions	33	1,703,551	1,487,022	1,185,556	1,099,891
Subordinated liabilities	34	1,655,377	414,578	1,651,518	414,578
Current tax liability		40,953	-	43,935	-
Provisions for other risks and loan commitments	35	472,722	382,849	444,673	373,117
Held-for-trading financial liabilities		4,226	11,906	4,226	11,906
Other financial liabilities	36	648,846	1,222,232	532,941	1,143,087
Other non-financial liabilities	37	133,415	66,006	114,872	62,276
Total liabilities excluding financial liabilities to holders of fund units		**70,014,904**	**52,644,734**	**66,707,698**	**52,332,002**
Financial liabilities to holders of fund units		1,777	20,123	-	-
Total liabilities		**70,016,681**	**52,664,857**	**66,707,698**	**52,332,002**
Equity					
Share capital	38	4,898,982	4,427,940	4,898,982	4,427,940
Treasury shares	39	(38,558)	(47,427)	(23,271)	(32,140)
Share premiums		28,381	28,381	28,381	28,381
Retained earnings	40	2,257,065	2,202,764	2,075,470	1,981,886
Revaluation reserves from tangible and intangible assets	41	17,847	17,524	20,722	20,416
Reserves on available-for-sale financial assets	42	-	(6,247)	-	52,176
Reserves on financial assets measured at fair value through other items of comprehensive income	42	(162,841)	-	(162,605)	-
Other reserves	43	586,660	502,487	573,537	491,414
Total equity attributable to equity holders of the Bank		**7,587,536**	**7,125,422**	**7,411,216**	**6,970,073**
Non-controlling interest	3aii	292,537	14,690	-	-
Total equity		**7,880,073**	**7,140,112**	**7,411,216**	**6,970,073**
Total liabilities and equity		**77,896,754**	**59,804,969**	**74,118,914**	**59,302,075**

The financial statements were approved by the Board of Directors on March 21, 2019 and were signed on its behalf by:

Horia Ciorcilă
Chairman

George Călinescu
Deputy CEO

Consolidated Statement of Changes in Equity

For the year ended 31 December

Group

In RON thousand	Note:	Share capital	Treasury shares	Share premiums	Revaluation reserves	Reserves from financial assets measured through other items of comprehensive income	Other reserves	Retained earnings	Total attributable to the equity holders of the Bank	Non-controlling interest	Total
		Attributable to the equity holders of the Bank									
Balance at 31 December		**4,427,940**	**(47,427)**	**28,381**	**17,524**	**(6,247)**	**502,487**	**2,202,764**	**7,125,422**	**14,690**	**7,140,112**
Adoption of new standards		-	-	-	-	(93,815)	-	(32,386)	(126,201)	-	(126,201)
Balance as at 01 January 2018		**4,427,940**	**(47,427)**	**28,381**	**17,524**	**(100,062)**	**502,487**	**2,170,378**	**6,999,221**	**14,690**	**7,013,911**
Statement of comprehensive income for the period											
Profit for the year		-	-	-	-	-	-	1,249,740	1,249,740	10,940	1,260,680
Other comprehensive income, net of income tax											
Gains from fair value changes of financial assets measured at fair value through other items of comprehensive income, net of deferred tax	42	-	-	-	-	(62,779)	-	-	(62,779)	-	(62,779)
Revaluation of tangible assets, net of tax	41	-	-	-	1,878	-	-	-	1,878	-	1,878
Retained earnings from revaluation reserves	41				(1,555)	-	-	1,555	-	-	-
Distribution to statutory reserves		-	-	-	-	-	84,173	(84,173)	-	-	-
Other items of comprehensive income, net of tax	40	-	-	-	-	-	-	120	120	-	120
Total comprehensive income for the period		**-**	**-**	**-**	**323**	**(62,779)**	**84,173**	**1,167,242**	**1,188,959**	**10,940**	**1,199,899**
Contributions of/distributions to the shareholders											
Increase in share capital through the conversion of profit reserves	38	471,042	-	-	-	-	-	(471,042)	-	-	-
Acquisition of treasury shares	39	-	(48,686)	-	-	-	-	-	(48,686)	-	(48,686)
Payments of treasury shares	39	-	57,555	-	-	-	-	(57,555)	-	-	-
Dividends distributed to shareholders		-	-	-	-	-	-	(610,000)	(610,000)	-	(610,000)
Retained earnings as a result of the weighted average cost for assets measured at fair value through the comprehensive income		-	-	-	-	-	-	(14,069)	(14,069)	-	(14,069)
Reserves from the conversion of shares held by minority shareholders upon the merger		-	-	-	-	-	-	6,334	6,334	-	6,334
SOP 2018 Scheme		-	-	-	-	-	-	66,736	66,736	-	66,736
Other adjustments	40							(959)	**(959)**	266,907	265,948
Total contributions of/distributions to the shareholders		**471,042**	**8,869**	**-**	**-**	**-**	**-**	**(1,080,55**	**(600,644)**	**266,907**	**(333,737)**
Balance at 31 December 2018		**4,898,982**	**(38,558)**	**28,381**	**17,847**	**(162,841)**	**586,660**	**2,257,065**	**7,587,536**	**292,537**	**7,880,073**

Consolidated Statement of Changes in Equity *(continued)*

For the year ended 31 December

Group		Attributable to the equity holders of the Bank									
In RON thousand	**Note:**	**Share capital**	**Treasury shares**	**Share premiums**	**Revaluation reserves**	**Reserves on available-for-sale financial assets**	**Other reserves**	**Retained earnings**	**Total attributable to the equity holders of the Bank**	**Non-controlling interest**	**Total**
Balance as at 1 January 2017		**3,732,549**	**(29,993)**	**28,374**	**26,227**	**(8,791)**	**432,061**	**1,954,073**	**6,134,500**	**18,207**	**6,152,707**
Statement of comprehensive income for the period											
Profit for the year		-	-	-	-	-	-	1,239,452	**1,239,452**	3,016	**1,242,468**
Other comprehensive income, net of income tax											
Loss from fair value changes of financial assets available-for-sale, net of deferred tax	42	-	-	-	-	2,544	-	-	**2,544**	-	**2,544**
Revaluation of property and equipment, net of income tax	41	-	-	-	1,886	-	-	-	**1,886**	-	**1,886**
Retained earnings from revaluation reserves	41	-	-	-	(12,926)	-	-	12,926	-	-	-
Distribution to statutory reserves		-	-	-	-	-	70,426	(70,426)	-	-	-
Other items of comprehensive income, net of tax	40	-	-	-	-	-	-	(219)	**(219)**	-	**(219)**
Statement of comprehensive income for the period		-	-	-	**(11,040)**	**2,544**	**70,426**	**1,181,733**	**1,243,663**	**3,016**	**1,246,679**
Contributions of/distributions to the shareholders											
Increase in share capital through the conversion of profit reserves	38	695,388	-	-	-	-	-	(695,388)	-	-	-
Increase in share capital through the conversion of subordinated debt into shares		3	-	7	-	-	-	-	**10**	-	**10**
Acquisition of treasury shares	39	-	(65,234)	-	-	-	-	-	**(65,234)**	-	**(65,234)**
Payments of treasury shares	39	-	49,640	-	-	-	-	(49,640)	-	-	-
Recognition of employee benefits in the form of equity instruments		-	-	-	-	-	-	41,307	**41,307**	-	**41,307**
Bonus shares from investments in subsidiaries	39	-	(1,840)	-	-	-	-	-	**(1,840)**	-	**(1,840)**
Dividends distributed to shareholders		-	-	-	-	-	-	(219,000)	**(219,000)**	-	**(219,000)**
Other adjustments	40	-	-	-	2,337	-	-	(10,321)	**(7,984)**	(6,533)	**(14,517)**
Total contributions of/distributions to the shareholders		**695,391**	**(17,434)**	7	**2,337**	-	-	**(933,042)**	**(252,741)**	**(6,533)**	**(259,274)**
Balance at 31 December 2017		**4,427,940**	**(47,427)**	**28,381**	**17,524**	**(6,247)**	**502,487**	**2,202,764**	**7,125,422**	**14,690**	**7,140,112**

Separate Statement of Changes in Equity *(continued)*

For the year ended 31 December

Bank		Attributable to the equity holders of the Bank							
In RON thousand	**Note:**	**Share capital**	**Treasury shares**	**Share premiums**	**Revaluation reserves**	**Reserves from financial assets measured through other items of comprehensive income**	**Other reserves**	**Retained earnings**	**Total**
Previously reported balance as at 31 December 2017		**4,427,940**	**(32,140)**	**28,381**	**20,416**	**52,176**	**491,414**	**1,981,886**	**6,970,073**
Adoption of new standards		-	-	-	-	(152,002)	-	34,487	**(117,515)**
Balance as at January 1, 2018		4,427,940	(32,140)	28,381	20,416	(99,826)	491,414	2,016,373	**6,852,558**
Statement of comprehensive income for the period		-	-	-	-	-	-	1,219,391	**1,219,391**
Profit for the year									
Other comprehensive income, net of income tax									
Loss (-) from fair value changes of financial assets measured at fair value through other items of comprehensive income, net of deferred tax	41	-	-	-	-	(62,779)	-	-	(62,779)
Revaluation of property and equipment, net of income tax	41	-	-	-	1,861	-	-	-	1,861
Retained earnings from revaluation reserves	41	-	-	-	(1,555)	-	-	1,555	-
Distribution to statutory reserves	43	-	-	-	-	-	82,123	(82,123)	-
Other items of comprehensive income, net of tax	40	-	-	-	-	-	-	37	37
Statement of comprehensive income for the period		**-**	**-**	**-**	**306**	**(62,779)**	**82,123**	**1,138,860**	**1,158,510**
Contributions of/distributions to the shareholders									
Increase in share capital through the conversion of profit reserves	38	471,042	-	-	-	-	-	(471,042)	**-**
Reserves from the conversion of shares held by minority shareholders upon the merger	38	-	-	-	-	-	-	6,334	**6,334**
SOP 2018 Scheme	40							66,736	**66,736**
Acquisition of treasury shares	39	**-**	(48,686)	-	**-**	**-**	**-**	-	**(48,686)**
Payments of treasury shares to the employees	39	**-**	57,555	-	**-**	**-**	**-**	(57,555)	**-**
Retained earnings as a result of the weighted average cost for assets measured at fair value through the comprehensive income		**-**	-	-	**-**	**-**	**-**	(14,750)	**(14,750)**
Dividends distributed to shareholders	39	**-**	-	-	**-**	**-**	**-**	(610,000)	**(610,000)**
Other adjustments	40	**-**	-	-	**-**	**-**	**-**	514	**514**
Total contributions of/distributions to the shareholders		**471,042**	**8,869**	**-**	**-**	**-**		**(1,079,763)**	**(599,852)**
Balance at 31 December 2018		**4,898,982**	**(23,271)**	**28,381**	**20,722**	**(162,605)**	**573,537**	**2,075,470**	**7,411,216**

The explanatory notes to the financial statements from page 10 to page 183 are an integral part of these financial statements

Separate Statement of Changes in Equity *(continued)*

For the year ended 31 December

Bank		Attributable to the equity holders of the Bank							
In RON thousand	**Note:**	**Share capital**	**Treasury shares**	**Share premiums**	**Revaluation reserves**	**Reserves on available-for-sale financial assets**	**Other reserves**	**Retained earnings**	**Total**
Balance as at 1 January 2017		**3,732,549**	**(16,546)**	**28,374**	**27,188**	**10,790**	**422,489**	**1,779,244**	**5,984,088**
Statement of comprehensive income for the period									
Profit for the year		-	-	-	-	-	-	1,185,979	**1,185,979**
Other comprehensive income, net of income tax									
Loss (-) from fair value changes of financial assets available-for-sale, net of deferred tax	41	-	-	-	-	41,386	-	-	**41,386**
Revaluation of property and equipment, net of income tax	40	-	-	-	1,886	-	-	-	**1,886**
Retained earnings from revaluation reserves	40	-	-	-	(8,658)	-	-	8,658	**-**
Distribution to statutory reserves	42	-	-	-	-	-	68,925	(68,925)	**-**
Other items of comprehensive income, net of tax	39	-	-	-	-	-	-	(349)	**(349)**
Statement of comprehensive income for the period		**-**	**-**	**-**	**(6,772)**	**41,386**	**68,925**	**1,125,363**	**1,228,902**
Contributions of/distributions to the shareholders									
Increase in share capital through the conversion of profit reserves	37, 39	695,388	-	-	-	-	-	(695,388)	**-**
Increase in share capital through share premium incorporation	37	3	-	7	-	-	-	-	**10**
Recognition of employee benefits in the form of equity instruments	39	-	-	-	-	-	-	41,307	**41,307**
Acquisition of treasury shares	38	-	(65,234)	-	-	-	-	-	**(65,234)**
Payments of treasury shares to the employees	38	-	49,640	-	-	-	-	(49,640)	
Dividends distributed to shareholders	39	-	-	-	-	-	-	(219,000)	**(219,000)**
Total contributions of/distributions to the shareholders		**695,391**	**(15,594)**	7	**-**	**-**	**-**	**(922,721)**	**(242,917)**
Balance at 31 December 2017		**4,427,940**	**(32,140)**	**28,381**	**20,416**	**52,176**	**491,414**	**1,981,886**	**6,970,073**

Consolidated and Separate Statement of Cash Flows

For the year ended 31 December

		Group		Bank	
In RON thousand	**Note:**	**2018**	**2017**	**2018**	**2017**
Cash flow from operating activities					
Profit for the year		**1,260,680**	**1,242,468**	**1,219,391**	**1,185,979**
Adjustments for:					
Depreciation and amortization	26.27	162,514	125,024	129,250	90,106
Impairment allowance and write-offs of financial assets, provisions for other risks and loan commitments		845,648	332,515	674,288	282,520
Adjustment of financial assets at fair value through profit and loss		2,570	(43,509)	(40,529)	(14,890)
Expense tax	18	446,148	200,154	423,055	192,521
Interest income		(3,182,049)	(2,102,621)	(2,855,070)	(2,018,571)
Interest expense		432,500	211,802	377,162	210,122
Other allowances		683.910	216,082	119,899	143,769
Net profit adjusted with non-monetary elements		**651.921**	**181,915**	**47,446**	**71,556**
Changes in operating assets and liabilities(*)					
Change in placements with banks		2,737,899	(115,632)	1,104,840	(104,143)
Change in loans and advances to customers		(1,629,629)	(3,264,500)	(1,660,403)	(3,162,497)
Change in finance lease receivables		(398,946)	(273,851)	-	-
Change in financial assets at fair value through profit or loss		(33.840)	(65,878)	135,329	(6,412)
Change in financial assets held for trading and measured at fair value through profit or loss		54,535	(1,943)	31,652	(1,943)
Change in equity instruments		6,788	-	97,759	-
Change in other financial assets		(416,334)	266,338	(407,061)	272,584
Change in other assets		(3,335)	(7,196)	(3,855)	(8,850)
Change in deposits from customers		5,259,840	7,261,045	5,062,547	7,257,769
Change in deposits from banks		11,880	(119,304)	32,171	(119,303)
Change in held-for-trading financial liabilities		(8,048)	959	(8,048)	959
Change in redeemed claims		(11,516)	(1,225,839)	(11,516)	(1,225,839)
Change in other financial liabilities		(881,618)	506,182	(721,473)	493,727
Change in other liabilities		(72,085)	(4,819)	17,016	(19,334)
Income tax paid/recovered		(215,783)	(161,197)	(203,751)	(147,496)
Interest received		2,543,525	1,777,615	2,335,715	1,694,321
Interest paid		(322,460)	(185,915)	(279,282)	(186,722)
Net cash from operating activities		**7,272,794**	**4,567,980**	**5,569,086**	**4,808,377**

Consolidated and Separate Statement of Cash Flows

For the year ended 31 December

In RON thousand	Note:	Group 2018	Group 2017	Bank 2018	Bank 2017
Cash flow used in investment activities					
Acquisition of financial assets available-for-sale		-	(11,203,068)	-	(11,216,420)
Acquisition of financial assets measured at fair value through other items of comprehensive income		(11,241,169)	-	(11,235,146)	-
Sale of financial assets available-for-sale		-	10,126,397	-	10,101,484
Sale of financial assets measured at fair value through other items of comprehensive income		6,462,084	-	6,452,309	-
Net acquisitions of property and equipment		(75,372)	(220,644)	(70,729)	(120,124)
Net acquisitions intangible assets		(114,922)	(93,615)	(106,042)	(77,585)
Proceeds from disposal of property and equipment and intangible assets		41,905	16,677	31,894	5,084
Acquisition of equity investments		-	-	(194,700)	(19,960)
Dividends collected	14	3,611	3,857	135,407	41,878
Interest received		675,618	548,339	675,464	547,748
Net cash flow used in investment activities		**(4,248,245)**	**(822,057)**	**(4,311,543)**	**(737,895)**
Cash flow from financing activities					
Gross proceeds from loans from banks and other financial institutions	49	373,626	555,798	186,112	193,003
Gross payments from loans from banks and other financial institutions	49	(174,902)	(167,161)	(88,949)	(132,364)
Gross proceeds from subordinated loans from banks and other financial institutions	49	1,326,305	-	1,326,305	-
Gross payments from subordinated loans from banks and other financial institutions	49	(93,198)	-	(93,198)	-
Dividend payments		(607,269)	(242,945)	(607,269)	(236,780)
Payments for treasury shares		(48,686)	(65,234)	(48,686)	(65,234)
Interest paid		(74,899)	(36,576)	(61,188)	(34,671)
Net cash flow from / (used in) financing activities		**700,977**	**43,882**	**613,127**	**(276,046)**

(*) Changes in operating assets and liabilities only include the effect of net treasury flows, the non-monetary effect of the merger being eliminated

In RON thousand	Note	Group 2018	Group 2017	Bank 2018	Bank 2017
The impact of exchange rate variations on cash and cash equivalents		23,319	12,002	34,057	11,997
Net increase/decrease (-) in cash and cash equivalents		3,702,207	3,777,803	1,836,613	3,782,439
Cash and cash equivalents at the National Bank as at January 1		11,430,864	7,641,059	11,422,190	7,627,754
Cash and cash equivalents as at December 31	19	**15,156,390**	**11,430,864**	**13,292,860**	**11,422,190**

Notes to the separate and consolidated financial statements

1. Reporting entity

Banca Transilvania S.A.

Banca Transilvania S.A. (the "Parent company", "BT") is a joint-stock company incorporated in Romania. The Bank started its activity as a banking institution in 1993 and is licensed by the National Bank of Romania ("BNR", the "Central Bank") to conduct banking activities. The Bank started its activity in 1994 and its main operations involve banking services for legal entities and individuals.
Banca Transilvania Group (the "Group") includes the Parent company and its subsidiaries, based in Romania and in the Republic of Moldova. The consolidated and separate financial statements as at 31 December 2018 comprise the Parent company and its subsidiaries (hereinafter referred to as the "Group").

The Group's fields of activity are: banking through Banca Transilvania S.A. and Victoriabank S.A.; leasing and consumer finance mainly through BT Leasing Transilvania IFN S.A., ERB Retail Services IFN S.A., BT Direct IFN S.A., BT Microfinanţare IFN S.A. and BT Leasing MD S.R.L.; asset management through BT Asset Management S.A.I S.A and brokerage and investements through BT Capital Partners S.A. Additionally, the Bank controls one investment fund that it also includes in the consolidation basis.

In November 2017, Banca Transilvania S.A. announced its initiative to invest in the Republic of Moldova and received in the following period the acquisition approval from the Romanian and Moldovian regulatory authorities - the National Bank of Romania, the National Bank of Moldova and the Competition Council of the Republic of Moldova. On January 19, 2018, Banca Transilvania S.A. became a shareholder of Victoriabank S.A., the third largest bank in the Republic of Moldova, holding together with the EBRD a stake of more than 66% in this financial institution.

Between 14 February and 24 April 2018, Banca Transilvania S.A. went through a mandatory public offering to take over the securities issued by Victoriabank S.A., in accordance with the Moldovian capital market legislation; the offering was addressed exclusively to the current minority shareholders of Victoriabank S.A.
The objective of the tender offer was the acquisition of the remaining 8,308,673 shares issued by Victoriabank S.A., representing 33.23% of the total number of nominal ordinary shares with voting rights, in accordance with the approval of the National Commission for Financial Markets in the Republic of Moldova.

After the completion of the public offering and the appointment of the representatives of the new shareholder in the management committee and the Board of Directors of Victoriabank S.A., Banca Transilvania took control of the bank starting from April 2018.

On 24 November 2017, Banca Transilvania S.A. signed the agreement for the direct acquisition of the majority stake (99.14675%) held by Eurobank Group in Bancpost S.A and for the full stakes in ERB Retail Services IFN S.A. and ERB Leasing IFN S.A. The next stage being that of obtaining the transaction approvals from the Competition Council and the National Bank of Romania. The Group took control over these entities on 3 April 2018 (see note 50).

1. Reporting entity *(continued)*

At the end of June 2018, the Group lost control of BT Operational Leasing S.A., by selling the entire stake held in this subsidiary.
Following this transaction, the Group derecognized the assets and liabilities of the subsidiary at the date of the loss of control, as well as any non-controlling interests.
The incomes and expenses recorded by BT Operational Leasing S.A. from the beginning of the year until 30 June 2018 remained included in the profit of the Group as at 31 December 2018.
The consideration received following this transaction amounted to RON 28,299 thousand, being subject to further adjustments depending on the fulfillment of contractual conditions by both parties.

The Bank carries out its banking activity through its head office located in Cluj-Napoca and 54 branches, 435 agencies, 20 work units, 7 healthcare division units, 2 private banking agencies in Romania and Italy and 1 regional office located in Bucharest (2017: 54 branches, 413 agencies, 19 bank units, 7 healthcare division units, 2 private banking agencies in Romania and Italy and 1 regional office located in Bucharest). Out of the 435 agencies, 23 were taken over after the merger with Bancpost.

In 2013 the Bank opened a branch in Italy, which began its operational activity in 2014.

The Group's number of active employees as at 31 December 2018 was 9,014 (31 December 2017: 7,513 employees).

The Bank's number of active employees as at 31 December 2018 was 7,355 (2017: 7,007 employees).

The registered address of the Bank is Str. George Bariţiu nr. 8, Cluj-Napoca, Romania.

The ownership structure of the Bank is presented below:

	2018	**2017**
The European Bank for Reconstruction and Development ("EBRD")	8.60%	8.60%
Romanian individuals	20.05%	19.75%
Romanian companies	38.97%	30.97%
Foreign individuals	1.18%	1.80%
Foreign companies	31.20%	38.88%
Total	**100%**	**100%**

The Bank's shares are listed on the Bucharest Stock Exchange and are traded under the symbol TLV.

1. Reporting entity *(continued)*

The Group's subsidiaries are represented by the following entities:

Subsidiary	Field of activity	2018	2017
Victoriabank S.A.	Banking and financial intermediation subject to license	44.63%	-
BT Capital Partners S.A.	Investment banking and brokerage activities	99.59%	99.59%
BT Leasing Transilvania IFN S.A.	Leasing	100.00%	100.00%
BT Investments S.R.L.	Investments	100.00%	100.00%
ERB Retail Services IFN S.A.	Retail consumer finance through credit cards; Payment institution	100.00%	-
BT Direct IFN S.A.	Retail consumer financing	100.00%	100.00%
BT Building S.R.L.	Investments	100.00%	100.00%
BT Asset Management SAI. S.A.	Asset management	80.00%	80.00%
BT Solution Agent de Asigurare S.R.L.	Insurance broker	99.95%	99.95%
BT Asiom Agent de Asigurare S.R.L.	Insurance broker	99.95%	99.95%
BT Safe Agent de Asigurare S.R.L.	Insurance broker	99.99%	99.99%
BT Intermedieri Agent de Asigurare S.R.L.	Insurance broker	99.99%	99.99%
BT Operaţional Leasing S.A.	Leasing	-	94.73%
BT Leasing MD SRL	Leasing	100.00%	100.00%
BT Microfinanţare IFN S.A.	Financing activities for companies	100.00%	100.00%
BT Transilvania Imagistica S.A.	Other healthcare activities	-	96.64%
Improvement Credit Collection S.R.L	Collection activities and reporting to Credit Bureau	100.00%	100.00%
Sinteza S.A.	Production of basic organic chemicals	51.47%	50.15%
Chimprod S.R.L.	Production of basic pharmaceutical products	51.35%	50.03%

As at 31 December 2018, the Group controls but does not include in the consolidation the company S.C. Timesafe S.R.L., an entity providing "information technology services". The subsidiary was not included in the consolidation because of its immateriality in terms of total assets (31 December 2018: RON 978 thousand), equity (31 December 2018: RON -1,587 thousand) and losses (31 December 2017: RON -1,669 thousand) in the Group's total assets, shareholders' equity and profit.

BT Leasing Transilvania IFN S.A.

BT Leasing Transilvania IFN S.A. operates through its head office located in Cluj-Napoca,1 agency and 11 work units (2017: 1 agency and 11 work units) throughout the country. The company leases various types of vehicles, technical and other types of equipment.
The number of active employees as at 31 December 2018 was 115 (2017: 115 employees).
The registered address of BT Leasing Transilvania IFN S.A. is: Constantin Brâncuşi nr 74-76, et. 1 Cluj-Napoca, România.

1. Reporting entity *(continued)*

BT Asset Management SAI S.A.

BT Asset Management SAI S.A. is an investment management company, member of Banca Transilvania Financial Group, authorized by the National Securities Commission (currently the Financial Supervisory Authority, also named „ASF”) through the decision no. 903/29.03.2005, ASF Public Register No. PJR05SAIR/120016 dated 29.03.2005.

BT Asset Management SAI manages both open and closed investment funds. As at 31 December 2018, BT Asset Management SAI S.A. managed 11 investment funds, of which: 9 open funds and 2 closed funds, counting over 47,000 investors and assets under management of more than RON 3,655 billion (calculated acc. to IFRS), and of more than RON 3,668 billion (calculated acc. to the ASF regulations).

BT Asset Management SAI S.A. offers a full range of investment products, from fixed income funds, mixed funds and index funds, to equity funds. The access to the capital market is provided to customers through investments in Romania, as well as in the EU countries (mainly Austria); placements can be made both in lei and in euro.

The number of active employees as at 31 December 2018 was 30 (2017: 27 employees). The company’s registered address is in Cluj-Napoca, str. Emil Racoviţă, nr. 22, etaj 1 + mansardă, jud. Cluj.

BT Capital Partners S.A.

At the beginning of 2016, BT Securities – the brokerage company of Banca Transilvania Financial Group – became BT Capital Partners S.A., after taking over the investment banking activity of Capital Partners, the most important independent consulting Romanian company in the field of M&A and Corporate Finance. BT Capital Partners is also an exclusive member in Romania of Oaklins, the world's most important alliance of M&A professionals.

In its new formula, BT Capital Partners offers consulting services for raising funds via the capital market, consultancy on mergers and acquisitions, brokerage services, structuring of complex financing schemes, market research and strategic advisory.

At 31 December 2018 the company counted 55 active employees (2017: 57 employees). The company undertakes its activity through its headquarters located in Cluj-Napoca, 74-76 Constantin Brâncuşi Street, ground floor, Cluj county, Romania, and through 11 work units.

BT Direct IFN S.A.

The main field of activity of BT Direct IFN S.A. is represented by retail financing, through consumer loans granted to individuals. The number of active employees at 31 December 2018 was 65 (2017: 44 active employees). The company operates through its head office located in Cluj-Napoca, str. Constantin Brâncuşi nr. 74-76, etaj 3.
In 2018, BT Direct IFN S.A. signed loan agreements (linked consumer loans and personal needs loans) amounting to RON 110 million, the outstanding loan portfolio at the end of 2018 being of RON 180 million, 11% higher as compared to 2017.

1. Reporting entity *(continued)*

BT Microfinanţare IFN S.A.

BT Microfinanţare IFN SA is a non-banking financial institution established in 2016. The company's activity object is represented by small business financing. The company's registered address is: Bucharest, 43 Bucureşti – Ploieşti Street.

The number of active employees as at 31 December 2018 was 139 (2017: 127 active employees).
In 2018, BT Microfinanţare IFN S.A. financed around 4,600 micro-enterprises (loans for the support and development of current activities, procurement loans, loans for supplier payments, investment loans for existent and/or new work units, loans for the acquisition of machinery/equipment etc.), the loan balance at the end of 2018 being of RON 327.2 million (2017: RON 159.8 million).

B.C. „VICTORIABANK" S.A.

B.C. „VICTORIABANK" S.A was founded on 22 December 1989, being the first commercial bank in the Republic of Moldova to be registered with the Central Bank of USSR on 22 February 1990, being reorganized on 26 August 1991 into a joint-stock company (joint-stock commercial bank).

On 29 November 2002, the Bank was re-registered as a commercial bank, open joint-stock company, and its shares were registered and listed on the Moldova Stock Exchange.

The Bank is authorized to carry out banking activities pursuant to its license issued by the National Bank of Moldova.

The Bank carries out its activity through its headquarters located in str. 31 August 1989, no. 141, Chisinau, and through 34 branches and 59 agencies throughout the Republic of Moldova (31 December 2017: 34 branches and 58 agencies).

The Bank's number of active employees as at 31 December 2018 was 1,161.

The share capital of B.C. „VICTORIABANK" S.A. consists of MDL 250,000,910, divided into 25,000,910 class I nominal ordinary shares, with voting rights, at a face value of MDL 10/share. The nominal ordinary shares issued by the Bank (ISIN: MD14VCTB1004) are admitted to trading on the regulated market at the Moldova Stock Exchange (www.moldse.md).

2. Basis of preparation

a) Declaration of conformity

The separate and consolidated financial statements of the Group and the Bank have been prepared in accordance with the International Financial Reporting Standards ("IFRS") as endorsed by the European Union, effective as at the Group's and Bank's annual reporting date, 31 December 2018.
The separate and consolidated financial statements of the Group and the Bank as at 31 December 2018 cannot be amended after their approval by the Bank's Board of Directors.
As at 31 December 2018, the following entities applied the International Financial Reporting Standards ("IFRS") as a basis of preparation: Banca Transilvania S.A. (starting 1 January 2012), Victoriabank S.A., BT Asset Management SAI S.A. and BT Capital Partners S.A. (starting 1 January 2016). All the other entities in the Group apply the Statutory Reporting Standards according to the applicable regulations in force as at the reporting date.

2. Basis of preparation (*continued*)

Differences between the IFRS financial statements and the statutory financial statements of the subsidiaries

The subsidiaries, except those mentioned above, maintain their accounting records in accordance with the accounting legislation applicable in Romania and the Republic of Moldova. All such accounts of the Bank's subsidiaries are defined hereafter as statutory accounts.

These accounts have been restated to reflect the differences between the statutory accounts and IFRS. Accordingly, adjustments have been operated on the statutory accounts, where considered necessary, in order to align the consolidated financial statements with the IFRS in all material aspects.

The major changes applied to the statutory financial statements of the subsidiaries in order to bring them in line with the International Financial Reporting Standards as endorsed by the European Union are:

- the grouping of several detailed items into broader captions;
- fair value and impairment adjustments of financial instruments required in accordance with IFRS 9 ("Financial Instruments");
- deferred taxes, and
- presentation of the necessary information in accordance with the IFRS.

b) Basis of measurement

The separate and consolidated financial statements were prepared on historical cost basis, except for the financial instruments recognized at fair value through profit or loss, the financial instruments at fair value through other items of comprehensive income and the revaluation of property and equipment and investment property, excepting those with respect to which the fair value cannot be determined reliably.

c) Functional and presentation currency

The items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The functional currency of the entities within the Group is the Romanian leu "RON", "EUR" and the Moldovan leu "MDL". The separate and consolidated financial statements are presented in Romanian lei "RON", rounded to the nearest thousand.

d) Use of estimates and judgements

The preparation of the separate and consolidated financial statements in accordance with the IFRS as endorsed by the European Union implies that the management uses estimations and judgements that affect the application of accounting policies, as well as the reported value of assets, liabilities, incomes and expenses. The estimates and associated assumptions are based on historical data and various other factors that are believed to be relevant under the given circumstances, the result of which forms the basis of the judgements used in assessing the carrying value of the assets and liabilities for which no other evaluation sources are available. Actual results may differ from these estimates.

The estimates and assumptions are reviewed on an ongoing basis.

The review of the accounting estimates are recognized in the period in which the estimate is reviewed, if the review affects only that period, or in the period of the review and future periods if the review affects both current and future periods.

Information about estimates used in the application of the accounting policies which have a significant impact on the consolidated financial statements, as well as the estimates involving a significant degree of uncertainty, are described in Notes 4 and 5.

3. Significant accounting policies

The significant accounting policies set out below have been applied consistently by the Bank and the Group entities throughout all the periods presented in these consolidated and separate financial statements.

a) Basis for consolidation

The financial information in the consolidated financial statements include the parent company together with its subsidiaries subject to consolidation.
The Group adopted the following amended IFRS standards starting from 1 January 2014:

- IFRS 10 "Consolidated financial statements";
- IAS 27 "Separate financial statements"
- IFRS 12 "Disclosures of interests in other entities";
- IAS 28 (2011) "Investments in associates and joint ventures".

IFRS 10 "Consolidated financial statements"

IFRS 10 replaces the section of IAS 27 Consolidated and Separate Financial Statements which addresses the accounting of consolidated financial statements. It also addresses issues included in SIC-12 Consolidation - Special Purpose Entities.
IFRS 10 establishes a single control model that applies to all entities, including special purpose entities. The changes introduced by IFRS 10 require the management to operate significant judgements to determine which entities are controlled and must therefore be consolidated by a parent entity, compared to the requirements of IAS 27.

According to IFRS 10, control means that an investor has: 1) power over the investee; 2) exposure, or rights to variable returns from its involvement within the investee; 3) the ability to use its power over the investee to affect the amount of the investor's returns. The list of the Group's subsidiaries is presented in Note 1.

IAS 27 "Separate financial statements" (reviewed)

As a result of the new standards IFRS 10 and IFRS 12, the remaining provisions of IAS 27 are limited to the accounting of subsidiaries, jointly controlled entities and associates in the separate financial statements.

IFRS 12 "Disclosures of interests in other entities"

IFRS 12 includes all disclosures previously provided in IAS 27 on the consolidated financial statements and all other information provided previously in IAS 28 and IAS 31. The disclosures refer to an entity's investments in subsidiaries, joint ventures, associates and structured entities. There is also new information to be provided.

IAS 28 "Investments in associates and joint ventures" (reviewed)

As a result of the new standards IFRS 11 "Joint Ventures" and IFRS 12 "Disclosure of interests in other entities", IAS 28 "Investments in Associates" was renamed to become IAS 28 "Investments in Associates and Joint Ventures" and describes the application of the equity method for investments in joint ventures in addition to investments in associates.

(i) Subsidiaries

The Group's subsidiaries are the entities under the Group's direct and indirect management. The management of an entity is reflected by the group's capacity to exercise its authority in order to influence any variable profit to which the Group is exposed based on its involvement in the entity.

3. Significant accounting policies *(continued)*

a) Basis of consolidation (continued)

(i) Subsidiaries *(continued)*

The factors that the Group must consider when deciding to include an entity in the consolidation are the following:

- the purpose and activity object of the entity;
- the entity's relevant activities and the manner in which they are determined;
- whether the Group's rights ensure its capacity to manage the entity's relevant activities;
- whether the Group is exposed or entitled to variable profit;
- whether the Group can use its capacity in order to influence profits.

If voting rights are relevant, the Group is considered to be in control if it holds, directly or indirectly, more than half of the voting rights of an entity, except when there is proof that another investor has the capacity of control over the relevant activities. Potential voting rights considered as substantial are also taken into account when determining the control of the entity.

Moreover, the Group controls an entity even if it does not hold the majority of the voting rights, but however has the effective capacity to control the entity's relevant activities. This situation may occur when the dimension and dispersion of the shareholders' participations give authority to the Group to control the activities subject to investment.

The subsidiaries are included in the consolidation starting from the date when the management capacity is transferred to the Group.

The Group revaluates on an ongoing basis the control over the entities subject to investment, at least upon each quarterly reporting date. Therefore, any structural modification leading to the change of one or several control parameters is subject to revaluation. Such modification may include the change of the decision-making rights, changes in the contractual terms, financial or capital structure modifications, modifications caused by an event anticipated upon the initial documentation.

(ii) Non-controlling interest

The Group presents the non-controlling interest in its consolidated financial position within equity, separated from the equity of the parent company's owners.

The non-controlling interest is measured proportionally with the percentage held in the net assets of the subsidiary. Changes in ownership interest which do not result in the loss of parent control of the subsidiary, are reflected as equity transactions.

(iii) Loss of control

If the parent loses the control of a subsidiary, it derecognizes the assets (including goodwill), the liabilities and the book value of any non-controlling interest at the date such control is lost. Any gain or loss arising from the loss of control is recognized in the profit or loss account.

Upon the loss of control over a subsidiary, the Group: a) derecognizes the assets (including the attributable goodwill) and liabilities of the subsidiary at their book value, b) derecognizes the book value of any non-controlling interests held in the former subsidiary, c) recognizes the consideration received at fair value, as well as any distribution of the subsidiary's shares, d) recognizes any investment in the former subsidiary at fair value and e) recognizes any difference resulting from the above elements as profit or loss in the income statement. Any amounts recognized in the previous periods as other items of comprehensive income in relation to the respective subsidiary, shall be either reclassified in the consolidated statement of profit or loss or transferred to retained earnings, if required by other IFRS standards.

3. Significant accounting policies *(continued)*

a) Basis of consolidation (continued)

(iv) Investments in associates

A related party is an entity over which the Group exercises significant influence in terms of financial and operating policy decision making, but without controlling the entity. Significant influence is when the Group holds between 20% and 50% of the voting rights. The existence and impact of the potential rights that are currently enforceable or convertible are also taken into consideration in order to determine whether the Group exercises significant influence. Other factors taken into consideration in order to determine whether the Group exercises significant influence are the representation in the Board of Directors and the inter-company relevant transactions. The existence of such factors may require the application of the equity method of accounting for a certain investment, even if the Group's investment in voting shares is lower than 20%.

Investments in related parties are booked according to the equity method. The share of the Group resulting from the association is adjusted in order to be in line with the Group's accounting policies and is booked in the consolidated statement of profit or loss as net investment income (loss) according to the equity method. The Group's share in the profits or losses of the related parties resulting from inter-company sales is removed from the consolidation basis.

If the Group has previously held an equity participation in another entity (available for sale, for example) and has subsequently gained significant influence over the entity, the respective participation is revalued at fair value and any profit or loss is recognized in the consolidated statement of profit or loss. Any amount related to the equity participation that was previously recognized in other items of comprehensive income, shall be reclassified in the consolidated statement of profit or loss at the date when the Group gains significant influence, as if the group had assigned the previously held participation.

In accordance with the equity method, the Group's investments in related entities and jointly controlled entities are initially booked at cost, including any costs directly connected with the related party transactions, and are subsequently increased (or decreased) to reflect both the proportional share of the Group after the acquisition and the net income (or loss) of the related entity or of the jointly controlled entity, as well as other direct changes in the shareholders' equity of the related entity or of the jointly controlled entity. The goodwill generated by the acquisition of a related entity or of a jointly controlled entity is included in the investment book value. Since goodwill is not reported separately, it is not tested for depreciation. In fact, the whole investment accounted based on the equity method is tested for depreciation upon each balance sheet preparation.

At the date when the Group ceases to have significant influence on the related entity or the jointly controlled entity, the Group shall determine the profit or loss from the assignment of the investment based on the equity method, which shall be equal to the difference between the fair value of each investment held and the income obtained from the sale of the related entity participation, and the investment book value. The amounts that were previously recognized in other items of comprehensive income with respect to the related entity are booked if the entity subject to the investment assigns directly the related assets or liabilities.

3. Significant accounting policies *(continued)*

a) Basis of consolidation (continued)

(v) Management of investment funds

The Group manages and administrates assets invested in fund units on behalf of investors. The financial statements of these entities are not included in the consolidated financial statements, except when the Group controls the entity by holding authority, exposure or rights over variable incomes based on its participation of more than 50% in the open investment fund units. In line with the Group's strategy to develop open investment funds and to attract new investors, the Group removes from the consolidation basis the open funds managed by BT Asset Management SAI S.A., if the percentage of fund unit holdings decreases below 40% during two financial years.

As concerns the closed funds managed by BT Asset Management SAI S.A., the Group removes from the consolidation basis the holdings for which there is no significant influence of more than 20%.

If the Group holds units in open or closed investment funds managed by an investment management company which is not included in the consolidation, they shall not be consolidated because the Group does not have the authority and decision-making power regarding the relevant activities of such entity.

(vi) Transactions eliminated from consolidation

Intra-group settlements and transactions, as well as any unrealized gains resulted from the intra-group transactions have been fully eliminated in the preparation of the consolidated financial statements. Unrealized gains resulted from transactions with related entities and jointly controlled entities are eliminated to the extent of the Group's interest in the entity. Unrealized gains resulted from transactions with related entities are eliminated in correlation with the investment in the related entity. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(vii) Unconsolidated entities

If the Group holds participations in subsidiaries or related entities which are immaterial in terms of total assets and off-balance sheet items as compared to the total assets and balance sheet items of the Group, the parent company may choose not to include them in the consolidation basis.

(viii) Presentation of the legal merger through absorption in the financial statements

The Group applies the requirements of IFRS 3 "Business combinations" in order to account for the merger through absorption in the separate financial statements of the absorbing entity. By applying this policy, the separate financial statements of the absorbing entity after merger are a continuation of the consolidated financial statements prepared starting with the date of acquisition of the absorbed entity.

The profit or loss and other comprehensive income of the absorbing entity includes the revenues and expenses as they were booked by the absorbed entity at individual level, for the period between the date of gaining the control (or the end of the last financial period) and the merger date.

Due to the lack of specific requirements in the IFRS related to legal mergers through absorption, the Bank decided to present the book value of the acquired identifiable assets and undertaken liabilities in the separate financial statements at the legal merger date, after their initial recognition at fair value at the date when the control was acquired.

3. Significant accounting policies *(continued)*

b) Foreign currency transactions

(i) Foreign currency transactions

Transactions in foreign currency are recorded in RON at the official exchange rate at the date of the transaction. The exchange rate differences resulting from such transactions denominated in foreign currency are reflected in the statement of profit or loss at the transaction date and using the exchange rate valid at the respective date.

Monetary assets and liabilities denominated in foreign currencies at the date of the consolidated and separate statement of financial position are translated to the functional currency at the exchange rate valid at that date.

FX differences are recognized in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in foreign currency are translated in the functional currency by using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the functional currency at the exchange rate valid at the date when the fair value is determined.

FX differences are recognized in profit or loss.

(ii) Translation of foreign currency operations

The result and financial position of operations denominated in a currency different from the functional and presentation currency of the Group are translated into the presentation currency as follows:

- the assets and liabilities of this entity, both monetary and non-monetary, were translated at the closing rate at date of the consolidated and separate statement of financial position;
- income and expense items of these operations were translated at the average exchange rate of the period, as an estimate of the exchange rates at the dates of the transactions; and
- all resulting exchange differences have been classified as equity until the disposal of the investment.

The exchange rates for the major foreign currencies were:

c) Accounting method for the effect of hyperinflation

Currency	31 December 2018	31 December 2017	Variation %
Euro (“EUR”)	1:RON 4.6639	1: RON 4.6597	0.09%
American dollar (“USD”)	1: RON 4.0736	1: RON 3.8915	4.68%

According to IAS 29 and IAS 21, the financial statements of an entity whose functional currency is the currency of a hyperinflationary economy, should be stated in terms of the current purchase power of the currency at the date of the consolidated and separate statement of financial position i.e. nonmonetary items are restated using a general price index from the date of acquisition or contribution. IAS 29 stipulates that economies should be regarded as hyperinflationary if, among other factors, the cumulative inflation rate over a period of three years exceeds 100%. The continuously decreasing inflation rates and other factors related to the characteristics of the economic environment in Romania indicate that the economy whose functional currency was adopted by the Bank and the Group ceased to be hyperinflationary, with effect on the financial periods starting from 1 January 2004. Therefore, the provisions of IAS 29 have no longer been adopted in preparing the consolidated and separate financial statements. Accordingly, the amounts expressed in the current measurement unit at 31 December 2003 have been treated as a basis for the carrying amounts in the consolidated and separate financial statements and do not represent appraised values, replacement cost, or any other measurement of the current value of assets or the prices at which transactions would take place at the current time.

3. Significant accounting policies *(continued)*

d) Interest income and expenses

Interest income and expenses related to financial investments are recognized in the income statement at amortized cost using the effective interest rate method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over a relevant period. The effective interest rate is the exact rate which adjusts the estimated future cash flows payable or receivable throughout the expected life of the financial instrument or, when appropriate, a shorter period, with the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Group and the Bank estimate future cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options), but without considering future credit losses. The calculation includes all fees and commissions paid or received between the contractual parties, which are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Fair value changes of derivative instruments held for hedging and other financial assets and liabilities at fair value are presented in the net trading income resulted from other financial instruments at fair value through profit or loss.

Once a financial asset or a group of similar financial assets has recorded an impairment loss, the interest income is thereafter recognized using the interest rate used to discount the future cash flows for the purpose of measuring the impairment loss applied on the net carrying value of the asset.

The subsequent upwards reassessments of the cash flows from loans and advances to clients further to a business combination are presented as part of the interest revenue.

Considering the source of revenue resulting from the upwards reassessments of the voluntary cash flows, the Group and the Bank adjusted the balance of the amortized cost of the loan portfolio with an amount calculated by discounting the expected future cash flows to the present value by using the initial effective interest rate. This adjustment is the result of a modification in the Group's and the Bank's estimates for the amounts that are to be collected, compared to the initial estimation at the initial valuation and recognition date.

e) Fee and commission income

Fee and commission income arises from financial services provided by the Group and the Bank: upfront fees, commitment fees, card fees, fees for cash management services, brokerage services, investment advice and financial planning, investment banking services, and asset management services.

Fee and commission income directly attributable to the financial asset or liability upon origination (both income and expense) is included in the measurement of the effective interest rate. Loan commitment fees are amortized together with the related direct costs and are recognized as an adjustment of the effective interest rate of the loan.

Other fee and commission income arising from the financial services provided by the Group, including investment management services, brokerage services, and account services fees, is recognized in the profit of the period when the related service is provided. Other fee and commission expense relates mainly to transaction and service fees, which are recognized when the services are provided.

3. Significant accounting policies *(continued)*

f) Net trading income

Net trading income represents the difference between the gain and loss related to the trading assets and liabilities and includes realized and unrealized fair value changes and foreign exchange differences.

g) Net loss/gain related to financial assets measured at fair value through other items of comprehensive income

The net loss/gain related to financial assets measured at fair value through other items of comprehensive income comprises the gain and loss from the sale of financial assets measured at fair value through other items of comprehensive income. Net gain and loss from the sale of financial assets measured at fair value through other items of comprehensive income are recognized in the income statement at the moment of their sale. They represent the difference between the obtained price and the amortized cost of the financial assets measured at fair value through other items of comprehensive income.

h) Net loss/gain from financial assets which are required to be measured at fair value through profit and loss

The net loss/ gain from financial assets which are required to be measured at fair value through profit and loss includes the gain and loss both from the revaluation at fair value and the sale of financial assets which are required to be measured at fair value through profit and loss.

i) Dividend income

Dividend income is recognized in profit or loss at the date when the right to receive such income is established and it is probable that the dividends will be collected. Dividends are reflected as a component of other operating income. Dividends are treated as a distribution of profit for the period in which they are declared and approved by the General Meeting of Shareholders.
For some of the Bank's subsidiaries, the only profit available for distribution is the profit for the year recorded in the Romanian statutory accounts, which differs from the profit in these consolidated and separate financial statements prepared in accordance with IFRS, as endorsed by European Union, due to the differences between the applicable Romanian Accounting Standards and IFRS, as endorsed by the European Union. The IFRS standards endorsed by the European Union are applied as a legal financial reporting basis by the Bank, starting with 1 January 2012, but also by the subsidiaries BT Asset Management SAI S.A. and BT Capital Partners S.A., starting with 1 January 2016.

j) Contribution to the Bank Deposit Guarantee Fund and to the Resolution Fund

The retail deposits and certain legal entity deposits, including SME deposits, are guaranteed up to EUR 100,000 by the Bank Deposit Guarantee Fund (the "FGDB") according to the regulations in force (Law 311/2015 regarding the deposit guarantee scheme and the Deposit Guarantee Fund).

The Romanian credit institutions are obliged to pay an annual contribution to the Deposit Guarantee Fund ("FGBD-Fondul de Garantare a Depozitelor Bancare"), in order to guarantee the clients' deposits in case of the credit institution's insolvency, as well as an annual contribution to the Resolution Fund ("Fondul de Rezolutie").

The Group and the Bank applied IFRIC 21 ”Taxes", as this contribution to the FGDB corresponds to a tax that needs to be fully recognized as an expense at the time the generating event occurs.

3. Significant accounting policies *(continued)*

k) Lease payments

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease contract. Leasing incentives received are recognized as an integral part of the total lease expense, over the term of the leasing contract. Operating lease expense is recognized as a component of operating expenses.

Minimum lease payments made under financial leases are apportioned between the interest expense and the reduction of the outstanding liability. The interest expense is allocated to each leasing period during the leasing term, so as to produce a constant interest rate on the remaining liability balance. Contingent lease payments are recognized as expense during the period in which they are made.

l) Income tax expense

Income tax for the year includes the current tax and the deferred tax. The income tax is recognized in the result for the year or in the shareholders' equity, if the tax is related to shareholders' equity items.

Current tax is the tax payable with respect to the profit for the period, determined based on the percentages applied at the date of the consolidated statement of financial position and all the adjustments related to the previous periods. The adjustments which influence the fiscal base of the current tax are: non-deductible expenses, non-taxable income, similar expense/ income items and other tax deductions.

Deferred tax is determined based on the balance sheet liability method for the temporary differences between the fiscal base for the calculation of the tax on assets and liabilities and their accounting value used for reporting under the consolidated financial statements. Deferred tax is not recognized for the following temporary differences: initial recognition of goodwill, initial recognition of assets and liabilities resulting from transactions which are not business combinations and do not affect the accounting or tax profit and differences resulting from investments in subsidiaries, provided that they are not reversed in the near future and the moment of reversal is being controlled by the entity.

The temporary differences may arise in a business combination, so that an entity may recognize any resulting deferred tax assets or liabilities as identifiable assets and liabilities at the acquisition date. The temporary differences arise when the tax bases of the identifiable assets acquired and liabilities assumed are not affected by the business combination.

3. Significant accounting policies *(continued)*

l) Income tax expense*(continued)*

According to the local tax regulations, the fiscal loss of the company that ceases to exist further to a legal merger through absorption can be acquired and recovered by the absorbing entity. The annual fiscal loss starting 2009, established through the tax statement shall be recovered from the taxable income of the next 7 consecutive years.
To report the unutilized fiscal losses, the deferred tax claims are recognized only to the extent to which it is probable to obtain taxable profit in the future after compensation with the tax loss from the previous years and with the recoverable tax on profit. Deferred tax claims are diminished to the extent to which the related tax benefits are unlikely to be achieved. Deferred tax claims are diminished to the extent to which the related tax benefits are unlikely to be achieved.

The tax rate used to calculate the current and deferred tax position at 31 December 2018 is 16% (31 December 2017: 16%).

m) Financial assets and liabilities

The Group and the Bank adopted IFRS 9 ("IFRS 9") as of the transition date 1 January 2018.

The new approach to the classification of financial assets relies on the cash flow characteristics and on the business model within which an asset is held.

The management of assets at the level of the Group and of the Bank is based on the business model and the cash flow features.

There are several types of business models:

"Hold to collect" business model:
This business model refers to financial assets that are classified in order to collect cash flows (for example: loans, government securities, bonds held outside the trading portfolio). If these assets pass the SPPI test, they are measured at amortized cost and included in the periodical provision calculations, they are measured at amortized cost and included in the periodical provision calculations. There is no requirement that the assets classified in this category should be held until their maturity; sales are acceptable with "low frequency", when the risk profile of such instruments increases or is no longer in line with the bank's investment policy. A higher frequency of sales during a certain period is not necessarily in contradiction with this business model, if the Group and the Bank are able to justify the reasons of such sales and to prove that such sales do not reflect a change in the current business model.

"Hold to collect and sell" business model:
Under this business model, financial assets are held to collect the contractual cash flows, but they may also be sold in order to cover liquidity requirements or to maintain a certain interest return on the portfolio. They are measured at fair value through other items of comprehensive income (reserves) and represent the equivalent of government securities, bonds and shares.

Other business models include business models in which the primary objective is realizing cash flows through sale, held for trading business models, business models under which assets are managed on a fair value basis, business models under which financial assets are acquired for sale/trading and measured through profit or loss (tradable securities, tradable shares, etc.). The portfolio is managed based on the market value evolution in respect of the assets concerned and includes frequent sales and purchases for the purpose of maximizing profit.

3. Significant accounting policies *(continued)*

m) Financial assets and liabilities *(continued)*

As of January 01, 2018, the Group and the Bank classify their financial assets and liabilities in the following categories:

- Financial assets at fair value through profit or loss (FVPL);
- Financial assets measured at fair value through other items of comprehensive income (FVOCI);
- Financial assets at amortized cost.

The Group and the Bank recognize all financial assets and liabilities at the transaction date. The transaction date is the date when the Group and the Bank undertake to buy or to sell an asset.

After its initial recognition, a financial asset is classified as ***measured at amortized cost*** provided that the following conditions are cumulatively fulfilled:

- the asset is held under a business model in which the primary objective is to collect contractual cash flows;
- the contractual terms of the financial asset generate cash flows at specific dates, representing solely payments of principal and interest.

Financial assets classified as measured at fair value through other items of comprehensive income are financial assets held both to collect cash flows and for sale purposes.

If financial assets do not observe the criteria according to which the contractual cash flows need to be Solely Payments of Principal and Interest (the SPPI test), such assets are required to be measured at fair value (for example derivatives or fund units). Embedded derivatives are no longer separated from the host financial assets, but will be assessed in their entirety together with the non-derivative financial asset, for the purpose of the contractual cash flow characteristics test.
Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading.
Therefore, if equity instruments are measured at fair value through other items of comprehensive income, such instruments will not be classified as monetary items and the accumulated profit or loss, including that resulting from currency exchange, will be transferred to the entity’s equity upon the derecognition of such instruments.
If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
Financial liabilities are classified after the initial measurement at amortized cost, except when measured at fair value through profit or loss (financial liabilities related to derivatives).
Embedded derivatives are separated from the host contract, as concerns financial liabilities.

Starting from 1 January 2018, the Group and the Bank measure equity instruments required to be measured at fair value through profit or loss. VISA Inc. shares are included in this category.
The gains and losses from investments in equity instruments measured at fair value through profit or loss are included in the statement of income under “Gains from financial instruments measured at fair value through profit or loss”.

Notes to the separate and consolidated financial statements

3. Significant accounting policies *(continued)*

m) Financial assets and liabilities *(continued)*

Investments in equity instruments, with respect to which the Group and the Bank do not have the intention to maximize cash flows by sale or which are not included in the trading portfolio, have been classified as financial assets required to be measured at fair value through profit and loss. In this case, the Group and the Bank have irrevocably decided to present fair value changes under comprehensive income, whereas the gains or losses related to the respective instruments will be transferred directly to the Group's equity, without being reclassified (or recycled) to profit or loss.

Government bonds, municipal bonds and bonds issued by other financial and non-financial institutions have been measured at fair value through other items of comprehensive income, with the observance of the SPPI test criteria and of the "hold to collect and sell" business model. Starting from 1 January 2018, the Group and the Bank recognize a provision for expected credit losses related to such assets measured at fair value through other items of comprehensive income. This provision will be recognized under other items of comprehensive income and will not diminish the book value of the financial asset.

Bonds issued by credit institutions and other financial institutions which observe the SPPI test criteria and the "hold to collect" business model are measured at amortized cost. Starting from 1 January 2018, the Group and the Bank have recognized impairment allowances related to financial assets measured at amortized cost.

Fund units held with mutual funds are measured at fair value through profit or loss. They are treated as debt instruments, they do not comply with the "hold to collect" business model criteria and are not included in the trading portfolio of the Group and of the Bank. Therefore, they are classified as financial assets required to be measured at fair value.
In the separate statement of financial position, equity instruments representing investments in associates and subsidiaries continue to be measured at cost, according to IAS 27 - "Separate Financial Statements".

Derivative instruments are measured at fair value through profit or loss.

Impairment requirements under IFRS 9 are based on expected losses and imply the timely recognition of forthcoming estimated losses. IFRS 9 eliminates the profit or loss volatility caused by the changes in credit risk with respect to liabilities measured at fair value. More specifically, the gains resulting from credit risk deterioration will no longer be recognized as profit or loss.

The determination of expected losses at the reporting date relies on the effective interest rate established upon the initial recognition or an estimated rate. As concerns financial assets with variable interest rate, the expected credit losses must be determined based on the current effective interest rate. As concerns the purchased or originated financial assets that are credit-impaired, the expected credit losses must be determined based on the credit-adjusted effective interest rate established upon the initial recognition.
In certain circumstances, the renegotiation of or change in the contractual cash flows related to financial assets results in the derecognition of the existing financial assets. If the contractual terms are significantly altered due to commercial renegotiations, both at the client's request and at the Bank's initiative, the existing financial asset is derecognized and the altered financial asset is subsequently recognized, such altered financial asset being considered as a "new" asset.

3. Significant accounting policies *(continued)*

m) Financial assets and liabilities (continued)

Under IFRS 9, *a financial asset is credit-impaired* when one or more events have occurred and have a significant impact on the expected future cash flows of the respective financial asset.
The proof that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or borrower;
- a breach of contract, such as a default or past-due event;
- the lender, for economic or contractual reasons relating to the borrower's financial difficulty, grants the borrower a concession that would not otherwise be considered;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for the financial asset because of financial difficulties; or
- the purchase or origination of a financial asset at a deep discount that reflects incurred credit losses.

A financial asset classified as impaired upon initial recognition will be maintained as such until its derecognition.
The Group assesses on forward-looking basics the expected credit losses ('ECL') associated with its debt instrument assets carried at amortised cost and fair value through other items of the comprehensive income and the exposure from loan commitments and financial guarantee contracts. The Group recognizes 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; and
- 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.

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarized below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Group.
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward- looking information.
- purchased or originated credit-impaired financial assets ("POCI") are those financial assets that are credit- impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

3. Significant accounting policies *(continued)*

n) Cash and cash equivalents with the National Bank

Cash and cash equivalents with the National Bank include: cash at hand, unrestricted balances held with National Bank of Romania and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of fair value changes.

Cash and cash equivalents with the National Bank are carried at amortized cost in the consolidated and separate statement of financial position.

o) Tangible assets

(i) Recognition and measurement

Tangible assets are stated at the revalued amount less accumulated depreciation.

Measurement upon initial recognition

The cost of a fixed asset item consists in:

a) the acquisition price, including customs charges and non-refundable acquisition costs, after the deduction of all commercial discounts;
b) any costs directly incurred in order to bring the asset at the adequate location or condition required by the management for proper functioning.

Tangible assets are stated at the revalued amount, less the accumulated depreciation and impairment losses.

The costs of tangible assets in progress are capitalized if the criteria for tangible asset recognition are met, notably: they generate future economic benefits, they can be measured reliably and they lead to the improvement of technical parameters, ensuring an ongoing use of the assets under normal conditions. The costs for maintenance and current repairs are not recognized under assets. Tangible assets in progress are recognized as tangible assets at the moment of reception and deployment.

The carrying amounts of assets are analyzed during the revaluation process upon the issuance of the statement of financial position. For revalued assets, if an asset's carrying amount is increased as a result of a revaluation, the increase shall be recognized in other comprehensive income. If an asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognized in profit or loss, except the case when the decrease shall be recognized in other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

When an item of property and equipment is revalued, the carrying amount of that asset is adjusted to the revalued amount. At the date of the revaluation, the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated depreciation at the date of the revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses.

The revaluation reserve for premises and equipment included in equity is transferred directly to retained earnings when the revaluation surplus is realized on the retirement or disposal of the asset.

Leasing agreements in which the Group and the Bank assume substantially all the risks and rewards of ownership are classified as finance leases. Tangible assets acquired by finance lease are stated at an amount equal to the lower between its fair value and the updated value of the minimum leasing payments from the leasing beginning date, less the accumulated depreciation and impairment losses.

3. Significant accounting policies *(continued)*

o) Tangible assets*(continued)*

(ii) Subsequent costs

The Group and the Bank recognise in the carrying amount of tangible assets the cost of replacing such an item when that cost is incurred or if it is probable that the future economic benefits embodied with the item may be transferred to the Group and to the Bank and the cost of the item can be measured reliably. All other costs are recognized in the income statement as an expense as incurred.

(iii) Depreciation

Depreciation is calculated on a straight-line basis over the estimated useful life of each item of tangible assets. Assets acquired through leasing are depreciated over the shorter period between the lease term and their useful life. Land is not depreciated.

The estimated useful lives are as follows:

Buildings	50 years
Leasehold improvements (average)	6 years
Computers	4 years
Equipment	2 - 24 years
Furniture	3 - 20 years
Vehicles	4 - 5 years

The leasehold improvements are depreciated over the lease term, which varies between 1 and 50 years. Depreciation methods, useful lives and residual values are reassessed at the reporting date.

p) Investment property

Investment property is property (land, buildings or parts of a building) held by the Group and the Bank to earn rent, for capital appreciation or both, rather than for:

- the use in production, the supply of goods or services or for administrative purposes; or
- the sale in the ordinary course of business.

Some properties include a part which is held for rent or for capital appreciation and a part which is used for the production of goods or services or administrative purposes.

(i) Recognition and measurement

Investment property is recognized as an asset when:
- it is probable that the future economic benefits that are associated with the investment may flow to the Group and to the Bank;
- the cost of the investment property can be measured reliably.

An investment property is measured initially at cost, including transaction costs. The cost of an investment property includes its purchase price (if purchased) and other directly attributable expenses (e.g. fees for legal services, property transfer taxes and other transaction costs).

3. Significant accounting policies *(continued)*

p) Investment property *(continued)*

(ii) Derecognition

The accounting policy for the subsequent measurement of the investment properties of the Group and the Bank is based on the fair value model. This policy is applied consistently for all the investment properties held by the Group and the Bank.

Gains or losses from the change in the fair value of the investment properties are recognized in profit or loss in the period in which they arise.

The fair value of the investment properties reflects the market conditions at the reporting date.

(iii) Transfers

Transfers to or from investment property are made when, and only when, there is a change in use of the asset. For the transfer of an investment property, measured at fair value, to tangible assets, the property's deemed cost for subsequent accounting is its fair value at the date of the change in use.

An investment property is derecognized on disposal or when it is permanently withdrawn from use and no future benefits are expected from its disposal.

The gain or loss on the retirement or disposal of an investment property is recognized in profit or loss in the period of the retirement or disposal.

q) Intangible assets

Upon their initial recognition, intangible assets are measured at cost. After the initial recognition, intangible assets are carried at the acquisition amount less any subsequent accumulated amortization and any subsequent accumulated impairment losses. The revaluation of the intangible assets occurs in accordance with the applicable regulations issued for this purpose.

The cost elements of intangible assets in progress are capitalized if criteria for intangible asset recognition is being met: future economic benefits associated with the item will flow to the entity, cost of the item can be reliably measured, the result will increase the future performance rate and the asset is separately identifiable within an economic activity. Maintenance costs and technical support are recognized in profit or loss as these are being incurred. Intangible assets in progress are recognized as intangible assets at the moment of reception and deployment.

(i) Goodwill and negative goodwill

Goodwill and negative goodwill arise on the acquisition of a new subsidiary by means of business combination. Goodwill represents the difference between the cost of acquisition and the net fair value of the acquired identifiable assets, liabilities and contingent liabilities.

Subsequent measurement

Goodwill is measured at cost, less accumulated impairment losses. Negative goodwill is immediately recognized in profit and loss (bargain gain), after reanalyzing the manner of identification and valuation of the assets, liabilities and identifiable contingent liabilities and the measurement of the acquisition cost.

3. Significant accounting policies *(continued)*

q) Intangible assets*(continued)*

(ii) Software

Costs associated with the development and maintenance of software programs are recognized as an expense when incurred.

Costs that are directly associated with the production of identifiable and unique software products controlled by the Group and the Bank, and that will probably generate economic benefits exceeding production costs for a period exceeding one year, are recognized as intangible assets.

Subsequent expenditure on software assets is capitalized only if it increases the future performance of such assets, beyond initial specifications and lifespan. All other expenditure is reflected as an expense as incurred.

Amortization is recognized in the income statement on a straight-line basis over the estimated useful life of the intangible asset. The estimated useful lives of intangible assets are reviewed at the reporting date and range between 1 and 5 years. The useful life of intangible assets derived from contractual rights should not exceed the validity period of such contractual rights, but it may be shorter depending on the estimated period of use of such assets by the entity.

Intangible assets in progress are not amortized before they are put into service.

r) Fixed assets held-for-sale

An asset is considered as a fixed asset held-for-sale if the following conditions are met: the asset value is recovered through sale and not by its continuous use, the asset must be available for immediate sale, the sale of the asset must be likely to happen. The probability of sale is justified by means of a sales plan at the level of the Group's and the Bank's management and by the active involvement of the Group and the Bank in identifying a buyer.

If the asset is reclassified from tangible assets according to IAS 16, the period between the date of reclassification and the date of sale should not exceed 12 months; the valuation of the asset classified as available-for-sale shall consider the lower value between the book value and the fair value, minus the sales-related costs.

s) Finance lease – lessee

Leasing contracts in which the Group assumes substantially all the risks and rewards of ownership were classified as financial leases. Upon initial recognition, leasing payments are recognized at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

The other leasing contracts represent operating leases and the leased assets are not recognized in the consolidated statement of financial position.

t) Impairment of non-financial assets

An impairment loss is recognized if the carrying amount of the asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable group generating cash flows and largely independent from other assets and groups.

3. Significant accounting policies *(continued)*

t) Impairment of non-financial assets *(continued)*

Impairment losses recognized in respect of cash-generating units are allocated to reduce the carrying amount of any goodwill allocated to the respective cash-generating unit (group of units) and then to reduce the carrying amount of any other assets in the unit on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value, less the cost of sale of such asset or unit. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments and the risks specific to the asset.

In respect of other non-financial assets, impairment losses are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss in other non-financial assets than goodwill is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss on assets is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

u) Deposits from customers

Customer deposits are initially measured at fair value, including transaction costs, and are subsequently measured at amortized cost by using the effective interest method.

v) Issued bonds, loans from banks and financial institutions

Borrowings such as loans from banks and other financial institutions and issued bonds are initially recognized at fair value, notably as proceeds resulting from such instruments (fair value of consideration received), net of transaction costs incurred. Issued bonds and loans from banks and other financial institutions are subsequently carried at amortized cost. The Group and the Bank classify these instruments as financial liabilities or equity instruments in accordance with the contractual terms of the instrument. The outstanding bonds that have not yet reached the maturity or liquidation date can be converted into shares, depending on the option of the holder, according to the issuance prospectus (not all the outstanding bonds are convertible).

The conversion shall be made at a price per share that is established at the price fixing date or at the liquidation date, which is equal to the average of the daily maximum and minimum share price on the regular market, weighted with the daily volume traded on the regular market throughout the 90 days when the shares were transacted on the Bucharest Stock Exchange, immediately prior to the price fixing date of the liquidation date. Share premiums result as a difference between the value of convertible bonds and the value of shares issued.

w) Provisions

Provisions are recognized in the consolidated and separate statement of financial position when the Group and the Bank acquire an obligation as a result of a past event and it is probable that an outflow of economic resources may be required in the future to settle the obligation, such obligation being measured reliably. The provisions' value is determined by discounting the expected future cash flows at a pre-tax rate that reflects current market conditions and the risks specific to the respective liability.

Provisions for covering the risk of transforming off-balance sheet credit commitments into credits are considered at the time when the Bank records in its off balance sheet a commitment with the risk of being converted into a credit. The calculation basis for these provisions includes exposures from commitments related to letters of credit, letter of guarantee, uncommitted amount of the loans granted by the Bank and factoring commitments. As of 2018, the calculation is made according to IFRS 9 and is based on the probability of conversion into credit, the probability of default and loss given default.

3. Significant accounting policies *(continued)*

x) Financial guarantees

Financial guarantees are contracts that require the Group and the Bank to make specific payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee liabilities are initially recognized at their fair value, and the initial fair value is amortized over the lifespan of the financial guarantee. The guarantee liability is subsequently carried at the higher of the amortized amount and the value of the expected loss (when a payment under the guarantee becomes probable).

y) Employee benefits

(i) Short-term benefits

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

(ii) Defined contribution plan

In the normal course of business, the Bank and its subsidiaries make payments to the Romanian public pension funds on behalf of their employees for retirement, healthcare and unemployment allowances. All the employees of the Bank and its subsidiaries are members and are also legally obliged to make specific contributions (included in the social security contributions) to the Romanian public pension plan (a State defined contribution plan). All relevant contributions to the Romanian public pension plan are recognized as an expense in the income statement as incurred. The Bank and its subsidiaries do not have any further obligations.

(iii) Other benefits

The Bank and its subsidiaries are enrolled in an optional pension scheme Pillar III, within an established limit, for the employees eligible at the payment date, in accordance with the applicable Romanian legal provisions. The Bank and its subsidiaries, pursuant to the collective employment agreement, must pay the equivalent of three gross monthly salaries to the employees, upon retirement. The debt related to this benefit scheme is calculated on an actuarial basis, considering the salary estimated at the retirement date and the number of activity years of each individual employee. The Bank and its subsidiaries do not have any obligation to provide subsequent services to the former or current employees.

The fixed and variable remuneration may also be granted by means of a stock option plan, in the form of shares. The variable component of the total remuneration represents the remuneration that can be granted by the Bank in addition to the fixed remuneration, on condition that certain performance ratios are achieved. The variable remuneration may be granted either in cash or in the Bank's shares (TLV). In the case of the identified staff, in the establishment of the annual variable remuneration, one shall aim at limiting excessive risk-taking. A substantial part of the variable component of the total remuneration, in all cases at least 40%, is deferred for a period of 3 years and is properly correlated with the activity nature, the risks and the responsibilities of the respective staff.

Based on the decision of the shareholders, the Board of Directors of the Bank decides in respect of the number of shares included in the employee loyalty plan. The fair value upon the vesting date of share-based awards - stock options – to employees is recognized as personnel expenses, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the awards.

3. Significant accounting policies *(continued)*

y) Employee benefits *(continued)*

(iii) Other benefits (continued)

The amount recognized as an expense is adjusted to reflect the value of awards for which the related services and non-market related performance conditions are expected to be fulfilled, so that the amount ultimately recognized as an expense is based on the actual compensation for the services and performance conditions which are not related to the market at the vesting date.

z) Segment reporting

An operational segment is a component of the Group and of the Bank:

- that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses related to transactions with other components of the same entity);
- whose operating results are reviewed regularly by the entity's decision maker in order to make decisions about resources to be allocated to the segment and to assess its performance;
- for which discrete financial information is available.

The Group's and the Bank's format for segment reporting is based on reporting segments.

aa) Earnings per share

The Group and the Bank presents basic and diluted earnings per share ("EPS") for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group and of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders with the weighted average number of outstanding ordinary shares, affecting all potential ordinary shares, which comprise convertible securities and share options granted to employees.

ab) Treasury shares

Required own equity instruments (treasury shares) are deducted from shareholders' equity. No gain or loss is recognized in the income statement from the purchase, sale, issue or cancellation of the Group's and the Bank's own equity instruments.

ac) Business Combinations

A business combination is accounted using the acquisition method at the date when the control is acquired, except for the cases when the combination involves entities or parties under common control or the acquired entity is a subsidiary of an investment entity.

Each identifiable asset and liability is evaluated at fair value at the acquisition date. The non-controlling interests in the acquired entity, which represent current ownership interest and entitle the holder to a proportional share of the entity's net assets in the event of liquidation, are measured either at fair value or proportionally with the acquired ownership interest in the entity's net identifiable assets. Non-controlling interests that are not current ownership interests are measured at fair value.

3. Significant accounting policies *(continued)*
ac) Business Combinations *(continued)*

Goodwill is measured by deducting the identifiable net assets acquired from the aggregate of the consideration transferred, any non-controlling interests in the acquired entity and the fair value at the acquisition date of the equity participation in the acquired entity previously held by the acquiring entity. If the acquirer obtains a gain from a bargain purchase, this gain is recognized in the profit and loss after the management reassesses whether all the assets were acquired and all liabilities and contingent liabilities were assumed based on appropriate measurement.

The consideration transferred in a business combination is measured at the fair value of the assets transferred by the acquirer, the liabilities incurred or assumed and the equity instruments issued, but excludes the costs related to intermediation, advisory, legal, accounting, valuation and other professional or consulting services, general administrative costs and the costs incurred for issuing debt and equity instruments, that are recognized in the profit or loss.

ad) Implementation of new or reviewed standards and interpretations

The following new standards and interpretations are in force as of January 1, 2018:

IFRS 9 - Financial Instruments (effective date: annual periods starting from January 1, 2018)

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortized cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).

- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortized cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets, but will be included in the assessment of SPPI.

- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.

- Most of the requirements in IAS 39 for the classification and measurement of financial liabilities have been carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

3. Significant accounting policies *(continued)*

ad) Implementation of new or reviewed standards and interpretations *(continued)*

- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit loss ("ECL") model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.

- Hedge accounting requirements have been amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

Notes to the separate and consolidated financial statements

3. Significant accounting policies *(continued)*

ad) Implementation of new or reviewed standards and interpretations *(continued)*

i) Classification and reconciliation of financial assets and liabilities upon the initial application of IFRS 9

The classification and book value of the Group's financial assets and liabilities according to IAS 39 and IFRS 9 as at 1 January 2018 are presented on a comparative basis below: The table below summarizes the book value reconciliations of the Group's financial assets upon the transition from the previous classification categories under IAS 39 at 31 December 2017 to the new classification categories under IFRS 9 at January 1, 2018:

Financial assets	**Classification category IAS 39**	**Classification category IFRS 9**	**IAS 39 Carrying amount as at 31 December 2017**	**Reclassification**	**Re-measurement**	**IFRS 9 Carrying amount as at 1 January 2018**
Cash and cash equivalents with the National Bank	Loans and receivables	Financial assets measured at amortized cost	6,637,725	-	(27)	6,637,698
Placements with banks and debt instruments	Loans and receivables	Financial assets measured at amortized cost	5,348,074	-	(96)	5,347,978
Financial assets at fair value through profit and loss	Financial assets at fair value through profit and loss	Financial assets held for trading and measured at fair value through profit and loss	264,996	(323)	-	264,673
- Equity instruments			*213,838*	*(323)*	-	*213,515*
- Debt instruments			*51,158*	-	-	*51,158*
Derivatives	Financial assets at fair value through profit and loss	Financial assets held for trading and measured at fair value through profit and loss	9,854	-	-	9,854
Loans and advances to customers	Loans and receivables	Financial assets measured at amortized cost	29,286,886	-	(123,741)	29,163,145
Finance lease receivables	Loans and receivables	Financial assets measured at amortized cost	785,330	-	(7,357)	777,973
Investment securities, available-for-sale	Financial assets available-for-sale	Financial assets measured at fair value through other items of comprehensive income	15,445,759	(15,445,759)	-	-
		- Equity instruments	*3,525*	*(3,525)*	-	-
		- Debt instruments	*15,442,234*	*(15,442,234)*	-	-
		Financial assets required to be measured at fair value through profit or loss	375,541	(375,541)	-	-
		- Equity instruments	*64,023*	*(64,023)*	-	-
		- Debt instruments	*311,518*	*(311,518)*	-	-

Notes to the separate and consolidated financial statements

3. Significant accounting policies *(continued)*

ad) Implementation of new or reviewed standards and interpretations *(continued)*

i) Classification and reconciliation of financial assets and liabilities upon the initial application of IFRS 9 (continued)

Financial assets	**Classification category IAS 39**	**Classification category IFRS 9**	**IAS 39 Carrying amount as at 31 December 2017**	**Reclassification**	**Re-measurement**	**IFRS 9 Carrying amount as at 1 January 2018**
Financial assets measured at fair value through other items of comprehensive income		Financial assets measured at fair value through other items of comprehensive income	-	15,445,759	4,037	15,449,796
- Equity instruments			-	*3,525*	*4,037*	*7,562*
- Debt instruments			-	*15,442,234*	-	*15,442,234*
Financial assets required to be measured at fair value through profit or loss		Financial assets required to be measured at fair value through profit or loss	-	375,864	-	375,864
- Equity instruments			-	64,346	-	64,346
- Debt instruments			-	311,518	-	311,518
Other financial assets	Loans and receivables	Financial assets measured at amortized cost	411,063	-	(14,103)	396,960
Total financial assets			**58,565,228**	**-**	**(141,287)**	**58,423,941**

The Group's financial liabilities were classified and measured at amortized cost according to IAS 39 until 31 December 2017 and according to IFRS 9 starting from 1 January 2018.

Notes to the separate and consolidated financial statements

3. Significant accounting policies *(continued)*

ad) Implementation of new or reviewed standards and interpretations *(continued)*

i) Classification and reconciliation of financial assets and liabilities upon the initial application of IFRS 9 (continued)

The classification and book value of the Bank's financial assets and liabilities according to IAS 39 and IFRS 9 as at 1 January 2018 are presented on a comparative basis below: The table below summarizes the book value reconciliations of the Bank's financial assets upon the transition from the previous classification categories under IAS 39 at 31 December 2017 to the new classification categories under IFRS 9 at January 1, 2018:

Financial assets	**Classification category IAS 39**	**Classification category IFRS 9**	**IAS 39 Carrying amount as at 31 December 2017**	**Reclassification**	**Re-measurement**	**IFRS 9 Carrying amount as at 1 January 2018**
Cash and cash equivalents with the National Bank	Loans and receivables	Financial assets measured at amortized cost	6,637,692	-	(27)	6,637,665
Placements with banks and debt instruments	Loans and receivables	Financial assets measured at amortized cost	5,302,292	-	(96)	5,302,196
Financial assets at fair value through profit and loss	Financial assets at fair value through profit and loss	Financial assets held for trading and measured at fair value through profit and loss	73,281	-	-	73,281
		- Equity instruments	*73,281*	-	-	*73,281*
Derivatives	Financial assets at fair value through profit and loss	Financial assets held for trading and measured at fair value through profit and loss	9,854	-	-	9,854
Loans and advances to customers	Loans and receivables	Financial assets measured at amortized cost	29,737,293	-	(119,953)	29,617,340
Finance lease receivables	Loans and receivables	Financial assets measured at amortized cost	-	-	-	-
Investment securities, available-for-sale	Financial assets available-for-sale	Financial assets measured at fair value through other items of comprehensive income	15,431,246	(15,431,246)	-	-
		- Equity instruments	3,092	(3,092)	-	-
		- Debt instruments	15,428,154	(15,428,154)	-	-
	Financial assets available-for-sale	Financial assets required to be measured at fair value through profit or loss	601,366	(601,366)	-	-
		- Equity instruments	63,888	(63,888)	-	-
		- Debt instruments	537,478	(537,478)	-	-

Notes to the separate and consolidated financial statements

3. Significant accounting policies *(continued)*

ad) Implementation of new or reviewed standards and interpretations *(continued)*

ii) Classification and reconciliation of reserves and retained earnings upon the initial application of IFRS 9

Financial assets	Classification category IAS 39	Classification category IFRS 9	IAS 39 Carrying amount as at 31 December 2017	Reclassification	Re-measurement	IFRS 9 Carrying amount as at 1 January 2018
Financial assets measured at fair value through other items of comprehensive income			-	15,431,246	3,983	15,435,229
- Equity instruments			-	3,092	3,983	7,075
- Debt instruments			-	15,428,154	-	15,428,154
Financial assets required to be measured at fair value through profit or loss			-	601,366	-	601,366
- Equity instruments			-	63,888	-	63,888
- Debt instruments			-	537,478	-	537,478
Other financial assets	Loans and receivables	Financial assets measured at amortized cost	388,659	-	(14,103)	374,556
Total financial assets			**58,181,683**	**-**	**(130,196)**	**58,051,487**

The Bank's financial liabilities were classified and measured at amortized cost according to IAS 39 until 31 December 2017 and according to IFRS 9 starting from 1 January 2018.

Notes to the separate and consolidated financial statements

3. Significant accounting policies *(continued)*

ad) Implementation of new or reviewed standards and interpretations *(continued)*

ii) Classification and reconciliation of reserves and retained earnings upon the initial application of IFRS 9

The table below analyzes the impact net of tax of the IFRS 9 transition on the Group's reserves and retained earnings.

	Impact of IFRS 9 as at 1 January 2018	
	Group	**Bank**
Reserves for available-for-sale assets according to IAS 39 (31 December 2017)	**(6,247)**	**52,176**
Reclassification of available-for-sale securities to financial assets which are required to be measured at fair value through profit or loss	(98,045)	(156,193)
Recognition in accordance with IFRS 9 of expected losses related to financial assets measured at fair value through other items of comprehensive income	931	931
Fair value restatement of financial instruments reclassified in accordance with IFRS 9	3,299	3,260
Reserves from fair value changes, net of accumulated depreciation, related to financial assets measured at fair value through other items of comprehensive income, net of tax (1 January 2018)	(100,062)	(99,826)
Retained earnings according to IAS 39 (31 December 2017)	**2,202,764**	**1,981,886**
Reclassification of available-for-sale securities to financial assets which are required to be measured at fair value through profit or loss	98,045	156,193
Recognition in accordance with IFRS 9 of expected credit losses (ECL) related to financial assets measured at fair value through other items of comprehensive income (FVOCI)	(697)	(697)
Recognition in accordance with IFRS 9 of expected credit losses (ECL) related to financial assets measured at amortized cost	(48)	(48)
Recognition in accordance with IFRS 9 of expected credit losses (ECL) related to financial assets measured at amortized cost and loan commitments	(129,686)	(120,961)
Retained earnings according to IFRS 9 (1 January 2018)	**2,170,378**	**2,016,373**

3. Significant accounting policies *(continued)*

ad) Implementation of new or reviewed standards and interpretations *(continued)*

IFRS 15 - Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on 1 January 2018).

The new standard introduces the core principle that revenue must be recognized when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognized, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.

Amendments to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018).

The amendments do not change the underlying principles of the Standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard.

Amendments to IFRS 2, Share-based Payment (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).

The amendments mean that non-market performance vesting conditions will impact measurement of cash-settled share-based payment transactions in the same manner as equity-settled awards. The amendments also clarify classification of a transaction with a net settlement feature in which the entity withholds a specified portion of the equity instruments, that would otherwise be issued to the counterparty upon exercise (or vesting), in return for settling the counterparty's tax obligation that is associated with the share-based payment. Such arrangements will be classified as equity-settled in their entirety.
Finally, the amendments also clarify accounting for cash-settled share based payments that are modified to become equity-settled, as follows:

(a) the share-based payment is measured by reference to the modification-date fair value of the equity instruments granted as a result of the modification;

(b) the liability is derecognised upon the modification;

(c) the equity-settled share-based payment is recognized to the extent that the services have been rendered up to by the modification date; and

(d) the difference between the carrying amount of the liability as at the modification date and the amount recognized in equity at the same date is recorded in profit or loss immediately.

3. Significant accounting policies *(continued)*

ad) Implementation of new or reviewed standards and interpretations *(continued)*

Annual Improvements to IFRSs 2014-2016 cycle - Amendments to IFRS 1 and IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

IFRS 1 was amended and some of the short-term exemptions from IFRSs in respect of disclosures about financial instruments, employee benefits and investment entities were removed, after those short-term exemptions have served their intended purpose. The amendments to IAS 28 clarify that an entity has an investment-by-investment choice for measuring investees at fair value in accordance with IAS 28 by a venture capital organization, or a mutual fund, unit trust or similar entities including investment linked insurance funds. Additionally, an entity that is not an investment entity may have an associate or joint venture that is an investment entity. IAS 28 permits such an entity to retain the fair value measurements used by that investment entity associate or joint venture when applying the equity method. The amendments clarify that this choice is also available on an investment-by-investment basis.

IFRIC 22 - Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

The interpretation addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) on the derecognition of a non-monetary asset or non-monetary liability arising from an advance consideration in a foreign currency. Under IAS 21, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transaction for each payment or receipt of advance consideration. IFRIC 22 only applies in circumstances in which an entity recognises a non-monetary asset or non-monetary liability arising from an advance consideration. IFRIC 22 does not provide application guidance on the definition of monetary and non-monetary items. An advance payment or receipt of consideration generally gives rise to the recognition of a non-monetary asset or non-monetary liability, however, it may also give rise to a monetary asset or liability. An entity may need to apply judgment in determining whether an item is monetary or non-monetary.

Transfers of Investment Property - Amendments to IAS 40 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

The amendments clarify the requirements on transfers to, or from, investment property in respect of properties under construction. Prior to the amendments, there was no specific guidance on transfers into, or out of, investment properties under construction in IAS 40.

3. Significant accounting policies *(continued)*

ad) Implementation of new or reviewed standards and interpretations *(continued)*

Transfers of Investment Property - Amendments to IAS 40 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018) *(continued)*

The amendment clarifies that there was no intention to prohibit transfers of a property under construction or development, previously classified as inventory, to investment property when there is an evident change in use. IAS 40 was amended to reinforce the principle of transfers into, or out of, investment property in IAS 40 to specify that a transfer into, or out of investment property should only be made when there has been a change in use of the property; and such a change in use would involve an assessment of whether the property qualifies as an investment property. Such a change in use should be supported by evidence.

ae) New standards and interpretations effective as of or after 1 January 2019

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB). This standard is not yet endorsed by the European Union).

These amendments address an 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. A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if such assets are held by a subsidiary.

IFRS 16 "Leases" (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019).

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Bank expects that the enforcement of IFRS 16 will generate the recognition of an asset related to the right to use leased assets of approximately RON 471 million.

3. Significant accounting policies *(continued)*

ae) New standards and interpretations effective as of or after 1 January 2019 *(continued)*

IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019).

IAS 12 makes reference to the accounting of current and deferred taxes, but not to the impact of the uncertainty. The interpretation clarifies the manner in which the recognition and valuation requirements in IAS 12 shall be applied in the event of uncertainty over income tax treatment. An entity should decide whether it considers each tax uncertainty separately or in correlation with one or several uncertainties, depending on the approach that best foresees the resolution of such uncertainty.

An entity should assume that a fiscal authority will examine the amounts with respect to which it has the right of examination and the full knowledge of the related information when performing the examination. If an entity reaches the conclusion that it is highly unlikely for the fiscal authority to accept an uncertain tax treatment, the impact of such uncertainty shall be reflected in the calculation of the related taxable profit or loss, of the tax base, of the unutilized tax losses, of the unutilized tax credit or tax rates, by using the most probable value or the estimated value depending on the entity's approach that best foresees the resolution of such uncertainty.

An entity shall consider the impact of any change in events or circumstances or in new information affecting the assumptions of interpretation as a change in accounting assumptions. Examples of changes in events and circumstances or in new information that may cause the revaluation of an assumption include but are not limited to examinations or actions undertaken by a fiscal authority, modifications of the rules established by a fiscal authority or the expiry of a fiscal authority's right to analyze or reanalyze a fiscal change. The lack of understanding or misunderstanding by a fiscal authority regarding a fiscal change is unlikely to represent a change in events and circumstances or in new information influencing the interpretation-related assumptions.

Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).

These amendments allow for the measurement at amortized cost of some loans and debt securities that can be prepaid at a value below the amortized cost, e.g. at a fair value or a value that includes a reasonable compensation for early termination of the contract, equal to the current value of the effect of the market interest rate increase in relation to the residual lifetime of the said instrument. Additionally, the text underlying the conclusions regarding the standard reconfirm the existing instructions in IFRS 9 based on which modifications and exchanges of financial liabilities measured at amortised cost shall be recognized as profit or loss in the P&L. Thus, in most cases, the reporting entities shall not be able to review the effective interest rate during the residual loan period in order to prevent the impact on the profit or loss caused by a possible modification of the loan.

3. Significant accounting policies *(continued)*

ae) New standards and interpretations effective as of or after 1 January 2019 *(continued)*

Long-term interest on related entities and business combinations - Amendments to IAS 28 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019. This standard is not yet endorsed by the European Union).

The amendments clarify that the reporting entities should apply IFRS 9 with respect to long-term borrowings, preferential shares and similar instruments included in a net investment based on the equity method prior to diminishing the book value by the loss of the entity resulting from the investment made, which exceeds the investor's interest in ordinary shares.

Annual improvements to IFRS 2015-2017 - Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019. This standard is not yet endorsed by the European Union).

The amendments' limited scope of application impacted four standards: According to IFRS 3, the buyer should revalue its previous joint participation interest when gaining control of the business. On the other hand, IFRS 11 states clearly that the investor should not revalue its previous participation interest when gaining control of a joint participation; this is similar to the requirements applicable when a related entity becomes a joint venture and vice versa.
IAS 12 amendment explains that an entity recognizes the impact of income tax related to dividends when the entity has recognized the transactions or events that had generated the respective distributable profit in the statement of profit or loss or in other items of comprehensive income, for example. Therefore, it is clear that this requirement applies in all circumstances since the payments related to financial instruments classified as shareholders' equity represent profit distributions, and not only in those circumstances where the fiscal outcome is a result of different tax rates applied on distributed, respectively undistributed profits. The reviewed IAS 23 includes explicit guidelines according to which the borrowings obtained for financing a specific asset are excluded from the category of borrowing costs eligible for capitalization only until the approximate completion of the respective asset.

Plan amendment, curtailment or settlement - Amendments to IFRS 19 (issued on February 7, 2018 and effective for annual periods beginning on or after 1 January 2019). This standard is not yet endorsed by the European Union).

The amendments stipulate the pension computation method when there are modifications in relation to a well-established plan. In case of modifications regarding a plan - amendment, curtailment or settlement - IAS 19 requires the re-measurement of the net liability or net asset regarding the defined benefit. The amendments require the use of updated assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement. Before the issue of these amendments, IAS 19 did not specify the computation method for such expenses for the period after the amendment of the plan. Through the requirement to apply updated assumptions it is expected that the amendments will provide useful information to the persons that use the financial statements.

3. Significant accounting policies *(continued)*

ae) New standards and interpretations effective as of or after 1 January 2019 *(continued)*

Amendments to the Conceptual Framework for Financial Reporting (issued on March 29, 2018 and effective for annual periods beginning on or after 1 January 2020). This standard is not yet endorsed by the European Union).

The reviewed conceptual framework for financial reporting includes a new chapter on measurement, guidance on reporting financial performance, improved definitions - particularly of a liability, - and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

"Definition of a Business" - Amendments to IFRS 3 (issued on October 22, 2018 and applicable to acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020. This standard is not yet endorsed by the European Union).

The amendments revise the definition of a business. A business must have the inputs and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present (including for early stage companies that have not generated outputs). The presence of an organized workforce is a condition for the classification as a business, even if there are no outputs. The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets. An entity can apply a 'concentration test'. The assets acquired would not represent a business if substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets).

Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020). This standard is not yet endorsed by the European Union).

The amendments clarify the definition of "material" and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

Except for the situations mentioned above, the new standards and interpretations are not expected to have a significant influence on the Group's financial statements.

4. Financial risk management

a) Introduction

The Group and the Bank have exposures to the following risks derived from the use of financial instruments:

- Credit Risk;
- Liquidity risk;
- Market risk;
- Operational risk;
- Taxation risk;

This note presents information about the Group's and the Bank's exposure to each of the above risks, the Group's and the Bank's objectives, policies and processes for measuring and managing risk. The most important types of financial risk to which the Group and the Bank are exposed: credit risk, liquidity risk and market risk. Market risk includes currency risk, interest rate risk and equity instruments' price risk.

Risk management is part of all decisional and business processes that take place in the Group's and the Bank's activity. The Board of Directors has the responsibility regarding the definition and monitoring of the general risk management framework for the Group and the Bank.

The risk management in Banca Transilvania S.A. is performed at 2 levels: a strategic level represented by the Board of Directors and the Leaders' Committee and an operational level represented by: Assets - Liabilities Committee ("ALCO"), Credit Policy and Approval Committee, Head Office Credit and Risk Committees (loan approval), Credit and Risk Committee of the branches/agencies, Workout Committee ("CRW"), the Bank's Leaders, Executive Directors and risk management structures within the Bank that are responsible for the definition and/or monitoring of risk management policies in their field of expertise. The Board of Directors periodically reviews the activity of these committees.

The Board of Directors monitors the compliance with the Group's and the Bank's risk policies and the adequacy of the general risk management framework in connection with the risks to which the Group and the Bank are exposed to.

The Risk Management Committee advises the Board of Directors regarding the risk appetite and the global strategy regarding the management of the current and future risks and assists the Board of Directors in overseeing the implementation of the strategy by the Leaders' Committee.

The Group's objective in terms of risk management is to integrate the assumed medium-risk appetite in the bank's decision-making process, by promoting a proper alignment between assumed risks, available capital and performance targets, while also considering the tolerance to financial and non-financial risks. In determining the risk appetite and tolerance, the Group takes into consideration all the material risks it is exposed to, given its specific activity and being mainly influenced by the credit risk.

Risk management policies and systems are reviewed regularly (mainly annually) with the participation of the Leaders' Committee and the responsible persons from different Departments involved, in order to reflect the changes in the market conditions, the products and services provided.

The crisis simulation process is an integral part of the risk management process.
The Bank reviews the crisis simulation program regularly, at least semi-annually, and assesses its efficiency and adequacy to the defined purposes/objectives.

4. Financial risk management *(continued)*

b) Credit risk

The Group's and the Bank's Audit Committee reports to the Board of Directors and is responsible for monitoring compliance with the Bank's risk management procedures. The Audit Committee is assisted in these functions by the Internal Audit. The Internal Audit department undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

The Board of Directors and the Management of the subsidiaries which constitute the Group have responsibilities regarding significant risk management in correlation with their specific business characteristics and applicable laws and regulations.

(i) Credit risk management

The objective of the Group and of the Bank as concerns the management of credit risk is to ensure a balanced distribution of capital among various business lines, which allows the achievement of comfortable RAROC (Risk-adjusted return on capital) levels considering the proportion of the lending activity in the bank's assets and its commercial bank profile.

The Group and the Bank are exposed to credit risk through the trading, lending, investment and guarantee issuing activities. The credit risk arising from trading and investment activities is mitigated by selecting only counterparties with good credit standing and by monitoring their activities and ratings, by using exposure limits and, when necessary, by requesting collaterals.
The Group's and the Bank's primary exposure to credit risk arises from loans and advances to customers.

The amount of credit risk exposure is represented by the carrying amounts of the assets on the separate statement of financial position. The Group and the Bank are exposed to credit risk derived from other financial assets, including derivative instruments and debt investments; the current credit risk exposure in respect of these instruments is equal to the carrying amount of the assets in the separate statement of financial position.

In addition, the Group and the Bank are exposed to off balance sheet credit risk from credit and guarantee commitments (see Note 45).

In order to minimize the risk, the Group and the Bank have defined procedures to assess customers before loan granting, to monitor their capacity to reimburse the principal and related interest during the entire loan period and to define exposure limits. In addition, the Group and the Bank have implemented procedures for monitoring the risks related to the loan portfolio and have defined exposure limits by types of loans, economic sectors, types of collateral, maturity, etc.

The Board of Directors has assigned the responsibility for credit risk management to the Leaders' Committee, Credit Policy and Approval Committee, Head Office Credit and Risk committees (credit approval), CRW at HQ level and Credit and Risk Committees in branches/ agencies. Moreover, several departments with risk attributions operate within the Bank, reporting to the Head Office Committees with respect to:

- The analysis, assessment and monitoring of specific risks within the lending activity;
- The risk analysis of the loan portfolio/large exposures, with recommendations submitted to the Leaders' Committee/Board of Directors;
- Monitoring the observance of internal policies specific to the lending activities;

4. Financial risk management *(continued)*

b) Credit risk *(continued)*

(i) Credit risk management (continued)

- Elaborating proposals for the reduction of specific risks, in order to maintain healthy standards in the lending activity;
- Elaborating an efficient credit risk rating process capable of rendering the variable level, nature and determining factors related to credit risk, which could occur in time, so as to ensure in a reasonable manner that all the credit exposures are properly monitored and the ECL-related allowances are properly measured;
- Monitoring the granted loans, in accordance with the client's financial performance, loan type, collateral type and debt service, in accordance with the internal lending policies and procedures;
- The approval and monitoring of ratios related to the establishment/modification of the branches' lending competences, according to specific internal policies;
- The periodic reviews and recommendations to the Leaders' Committee on the risk levels accepted by the Group and the Bank;
- Identifying, monitoring and controlling the credit risk at branch level and subsidiary level;
- The risk analysis with respect to new lending products/changes of loan products, including recommendations to the involved Departments;
- The periodical reporting to the Deputy CEO - Chief Risk Officer, Leaders' Committee, Risk Management Committee and the Board of Directors on the evolution of significant risks (the implications of risk correlation, forecasts etc.);
- Elaborating the methodology for the early identification of higher real or potential credit risks (early warning);
- Elaborating processes to be systematically and consistently applied in order to establish proper allowances for the loss in accordance with the applicable accounting regulations in the field of credit risk;
- Establishing and reviewing the back-testing methodology regarding the adequacy of the default probability parameter, the non-repayment status and the provision level related to the Bank's loan portfolio;

Each branch/agency implements at local level the Group's and the Bank's policies and regulations regarding credit risk, having loan approval competences established by the Leaders' Committee. Each branch/agency is responsible for the quality and performance of its loan portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to Head Office approval.

The Internal Audit Department and the Internal Control Department carry out periodical reviews of the branches and agencies.

(ii) Credit risk exposure

Concentrations of credit risk that arise from financial instruments exist for groups of counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The major concentrations of credit risk arise by individual counterparty and by type of customer in relation to the Group's and the Bank's loans and advances, loan commitments, finance lease and guarantees issued.

4. Financial risk management *(continued)*

b) Credit risk *(continued)*

(ii) Credit risk exposure (continued)

The table below contains the on-balance and off-balance sheet exposures, split by economic sector concentration:

	Group		Bank	
RON thousand	**2018**	**2017**	**2018**	**2017**
Retail	51.89%	52.04%	50.46%	50.44%
Trading	11.02%	11.42%	9.97%	10.42%
Production	10.21%	10.24%	10.97%	11.33%
Constructions	3.84%	3.99%	4.64%	4.87%
Agriculture	3.68%	3.87%	4.55%	4.65%
Services	3.59%	3.73%	3.79%	3.95%
Real estate	3.79%	3.71%	2.85%	2.76%
Transportation	2.72%	3.39%	2.64%	3.32%
Others	1.68%	1.82%	2.57%	2.65%
Self-employed	1.46%	1.56%	1.82%	1.94%
Financial institutions	3.27%	1.25%	2.68%	0.57%
Energy	1.27%	1.21%	1.44%	1.43%
Telecommunications	0.89%	1.03%	0.82%	0.83%
Mining	0.28%	0.35%	0.27%	0.33%
Chemical industry	0.22%	0.20%	0.45%	0.43%
Government institutions	0.15%	0.15%	0.03%	0.03%
Fishing	0.04%	0.04%	0.05%	0.05%
	100.00%	**100.00%**	**100.00%**	**100.00%**

At 31 December 2018, the total irrevocable on-balance and off-balance sheet exposure was of RON 43,174,413 thousand (2017: 33,529,094 RON thousand) for the Group and RON 40,874,821 thousand (2017: RON 33,069,722 thousand) for the Bank. The amounts presented above reflect the maximum accounting loss that would be recognized at the reporting date if the customers failed completely to perform their contractual obligations and if any collateral or security proved to be of no value.

The Group and the Bank hold guarantees for loans and advances to customers in the form of pledge over cash deposits, mortgage over property, guarantees and other pledges over equipment and/or receivables. The estimates of fair value are based on the collateral value assessed at the date of lending, except when a loan is individually assessed subsequently. Collateral is generally not held over loans and advances to banks.

The Group and the Bank use risk grades for loans both individually and collectively assessed. According to the Group's and the Bank's policies, a loan can be assigned a corresponding risk grade based on a 6-level classification: very low risk, low risk, moderate risk, sensitive risk, high risk and the highest risk for non-performing loans (default).

The classification of loans into groups is mainly based on the client scoring systems of the Group and Bank.

Notes to the separate and consolidated financial statements

4. Financial risk management *(continued)*

b) Credit risk *(continued)*

(ii) Credit risk exposure (continued)

The exposures to credit risk for loans and advances to customers and finance lease receivables **at Group level, as at 31 December 2018** are presented below:

At amortized cost	Assets with respect to which the credit risk has not increased significantly since the initial recognition (Stage 1)	Assets with respect to which the credit risk has significantly increased since the initial recognition, but which are not impaired (Stage 2)	Assets impaired at the reporting date (Stage 3)	Assets impaired on initial recognition (POCI)	Total
Loans in RON - retail customers < 5 years	5,845,950	233,495	199,709	31,073	6,310,227
Loans in RON - retail customers > 5 years	9,125,116	582,187	171,594	22,014	9,900,911
Loans in FCY - company customers < 5 years	169,584	28,245	111,141	14,661	323,631
Loans in FCY - retail customers > 5 years	3,597,659	1,205,497	443,428	105,049	5,351,633
Total Retail loans	***18,738,309***	***2,049,424***	***925,872***	***172,797***	***21,886,402***
Loans in RON - company customers < 5 years	7,613,483	1,686,538	1,154,607	88,040	10,542,668
Loans in RON - company customers > 5 years	1,785,978	398,983	78,193	28,199	2,291,353
Loans in FCY - company customers < 5 years	1,793,331	149,274	50,759	267,591	2,260,955
Loans in FCY - company customers > 5 years	1,644,478	1,546,123	306,718	11,695	3,509,014
Total loans to companies	***12,837,270***	***3,780,918***	***1,590,277***	***395,525***	***18,603,990***
Total loans and advances to customers before impairment allowance	**31,575,579**	**5,830,342**	**2,516,149**	**568,322**	**40,490,392**
Allowances for impairment losses on loans	***(455,275)***	***(583,721)***	***(1,634,156)***	***(156)***	***(2,673,308)***
Total loans and advances to customers net of impairment allowance	**31,120,304**	**5,246,621**	**881,993**	**568,166**	**37,817,084**

Notes to the separate and consolidated financial statements

4. Financial risk management (*continued*)

b) Credit risk *(continued)*

(ii) Credit risk exposure (continued)

The exposures to credit risk for loans and advances to customers at **Group** consolidated level, as at **1 January 2018**, are presented below:

At amortized cost	**Assets with respect to which the credit risk has not increased significantly since the initial recognition (Stage 1)**	**Assets with respect to which the credit risk has significantly increased since the initial recognition, but which are not impaired (Stage 2)**	**Assets impaired at the reporting date (Stage 3)**	**Assets impaired on initial recognition (POCI)**	**Total**
Loans in RON - retail customers < 5 years	3,997,498	298,041	167,122	1,588	4,464,249
Loans in RON - retail customers > 5 years	7,821,342	428,773	170,292	9,976	8,430,383
Loans in FCY - company customers < 5 years	129,864	46,950	29,306	3,410	209,530
Loans in FCY - retail customers > 5 years	2,677,133	748,713	392,675	63,409	3,881,930
Total Retail loans	***14,625,837***	***1,522,477***	***759,395***	***78,383***	***16,986,092***
Loans in RON - company customers < 5 years	7,101,736	1,348,340	1,096,763	78,261	9,625,100
Loans in RON - company customers > 5 years	1,886,066	320,806	152,052	30,334	2,389,258
Loans in FCY - company customers < 5 years	931,396	513,345	254,527	88,663	1,787,931
Loans in FCY - company customers > 5 years	753,129	267,589	111,084	8,768	1,140,570
Total loans to companies	***10,672,327***	***2,450,080***	***1,614,426***	***206,026***	***14,942,859***
Total loans and advances to customers before impairment allowance	**25,298,164**	**3,972,557**	**2,373,821**	**284,409**	**31,928,951**
Allowances for impairment losses on loans	***(238,762)***	***(370,561)***	***(1,343,997)***	***(34,513)***	***(1,987,833)***
Total loans and advances to customers net of impairment allowance	**25,059,402**	**3,601,996**	**1,029,824**	**249,896**	**29,941,118**

Notes to the separate and consolidated financial statements

4. Financial risk management (*continued*)

b) Credit risk *(continued)*

(ii) Credit risk exposure (continued)

The exposures to credit risk for loans and advances to customers at **Group** consolidated level, as at **31 December 2018**, are presented below:

Gross value of loans and advances, lease receivables granted to clients, not impaired, Stage 1	Total 2018	Loans and leasing facilities to individuals					Loans and leasing facilities to companies				
		Total Individuals	in RON		in FCY		*Total companies*	in RON		in FCY	
			< 5 years	> 5 years	< 5 years	> 5 years		< 5 years	> 5 years	< 5 years	> 5 years
Very low risk	**8,880,915**	***6,377,059***	2,215,274	3,160,224	54,946	946,615	***2,503,856***	1,479,959	458,746	314,706	250,445
Low risk	**17,345,509**	***11,225,881***	3,394,076	5,474,110	103,837	2,253,858	***6,119,628***	3,460,715	903,574	763,950	991,389
Moderate risk	**4,670,831**	***759,957***	167,237	347,133	6,791	238,796	***3,910,874***	2,495,564	388,561	639,692	387,057
Sensitive risk	**678,324**	***375,412***	69,363	143,649	4,010	158,390	***302,912***	177,245	35,097	74,983	15,587
Total loans and advances, lease receivables to customers before impairment allowance	**31,575,579**	***18,738,309***	**5,845,950**	**9,125,116**	**169,584**	**3,597,659**	***12,837,270***	**7,613,483**	**1,785,978**	**1,793,331**	**1,644,478**
Allowances for impairment losses on loans and lease receivables	**(455,275)**	***(83,574)***	(68,083)	(7,076)	(844)	(7,571)	***(371,701)***	(242,254)	(30,191)	(70,380)	(28,876)
Total loans and advances, lease receivables to customers net of impairment allowance	**31,120,304**	***18,654,735***	**5,777,867**	**9,118,040**	**168,740**	**3,590,088**	***12,465,569***	**7,371,229**	**1,755,787**	**1,722,951**	**1,615,602**

4. Financial risk management (*continued*)

b) Credit risk *(continued)*

(ii) Credit risk exposure (continued)

Gross value of loans and advances, lease receivables granted to clients, not impaired, Stage 1	Total 2018	*Total Individuals*	Loans to individuals				*Total companies*	Loans to companies			
			in RON		in FCY			in RON		in FCY	
			< 5 years	> 5 years	< 5 years	> 5 years		< 5 years	> 5 years	< 5 years	> 5 years
0 days	**30,487,009**	***17,762,596***	5,600,358	8,692,761	159,203	3,310,274	***12,724,413***	7,565,423	1,741,901	1,790,854	1,626,235
1-15 days	**845,186**	***752,977***	187,272	336,617	8,350	220,738	***92,209***	38,589	32,977	2,400	18,243
15-30 days	**243,384**	***222,736***	58,320	95,738	2,031	66,647	***20,648***	9,471	11,100	77	-
Total loans and advances, lease receivables to customers before impairment allowance	**31,575,579**	***18,738,309***	**5,845,950**	**9,125,116**	**169,584**	**3,597,659**	***12,837,270***	**7,613,483**	**1,785,978**	**1,793,331**	**1,644,478**
Allowances for impairment losses on loans and lease receivables	**(455,275)**	***(83,574)***	(68,083)	(7,076)	(844)	(7,571)	***(371,701)***	(242,254)	(30,191)	(70,380)	(28,876)
Total loans and advances, lease receivables to customers net of impairment allowance	**31,120,304**	***18,654,735***	**5,777,867**	**9,118,040**	**168,740**	**3,590,088**	***12,465,569***	**7,371,229**	**1,755,787**	**1,722,951**	**1,615,602**

Notes to the separate and consolidated financial statements

4. Financial risk management (*continued*)

b) Credit risk *(continued)*

(ii) Credit risk exposure (continued)

Gross value of loans and advances, lease receivables granted to clients, not impaired, Stage 2	**Total 2018**	***Total Individuals***	**Loans and leasing facilities to individuals**				***Total companies***	**Loans and leasing facilities to companies**			
			in RON		**in FCY**			**in RON**		**in FCY**	
			< 5 years	**> 5 years**	**< 5 years**	**> 5 years**		**< 5 years**	**> 5 years**	**< 5 years**	**> 5 years**
Low-moderate risk	**3,431,374**	***883,186***	33,463	209,691	9,789	630,243	***2,548,188***	773,253	269,179	78,917	1,426,839
Sensitive risk	**1,455,752**	***685,888***	127,819	218,093	11,948	328,028	***769,864***	557,991	76,387	50,636	84,850
High risk	**975,167**	***495,251***	72,863	157,949	6,751	257,688	***479,916***	361,161	55,395	27,352	36,008
Total loans and advances, lease receivables to customers before impairment allowance	**5,862,293**	***2,064,325***	**234,145**	**585,733**	**28,488**	**1,215,959**	***3,797,968***	**1,692,405**	**400,961**	**156,905**	**1,547,697**
Allowances for impairment losses on loans and lease receivables	**(588,363)**	***(270,060)***	(131,372)	(42,291)	(3,437)	(92,960)	***(318,303)***	(268,597)	(16,517)	(24,502)	(8,687)
Total loans and advances, lease receivables to customers net of impairment allowance	**5,273,930**	***1,794,265***	**102,773**	**543,442**	**25,051**	**1,122,999**	***3,479,665***	**1,423,808**	**384,444**	**132,403**	**1,539,010**

Notes to the separate and consolidated financial statements

4. Financial risk management (*continued*)

b) Credit risk *(continued)*

(ii) Credit risk exposure (continued)

Gross value of loans and advances, lease receivables granted to clients, not impaired, Stage 2	Total 2018	*Total Individuals*	Loans to individuals in RON < 5 years	Loans to individuals in RON > 5 years	Loans to individuals in FCY < 5 years	Loans to individuals in FCY > 5 years	*Total companies*	Loans to companies in RON < 5 years	Loans to companies in RON > 5 years	Loans to companies in FCY < 5 years	Loans to companies in FCY > 5 years
0-30 days	**5,392,528**	***1,728,601***	159,422	473,781	24,904	1,070,494	***3,663,927***	1,624,614	386,065	153,057	1,500,191
30-60 days	**365,768**	***254,154***	51,380	88,899	2,587	111,288	***111,614***	55,144	11,984	3,779	40,707
60-90 days	**103,997**	***81,570***	23,343	23,053	997	34,177	***22,427***	12,647	2,912	69	6,799
Total loans and advances, lease receivables to customers before impairment allowance	**5,862,293**	***2,064,325***	**234,145**	**585,733**	**28,488**	**1,215,959**	***3,797,968***	**1,692,405**	**400,961**	**156,905**	**1,547,697**
Allowances for impairment losses on loans and lease receivables	**(588,363)**	***(270,060)***	(131,372)	(42,291)	(3,437)	(92,960)	***(318,303)***	(268,597)	(16,517)	(24,502)	(8,687)
Total loans and advances, lease receivables to customers net of impairment allowance	**5,273,930**	***1,794,265***	**102,773**	**543,442**	**25,051**	**1,122,999**	***3,479,665***	**1,423,808**	**384,444**	**132,403**	**1,539,010**

Gross value of loans and advances, lease receivables granted to clients, impaired, Stage 3 and POCI	Total 2018	*Total Individuals*	Loans and leasing facilities to individuals in RON < 5 years	Loans and leasing facilities to individuals in RON > 5 years	Loans and leasing facilities to individuals in FCY < 5 years	Loans and leasing facilities to individuals in FCY > 5 years	*Total companies*	Loans and leasing facilities to companies in RON < 5 years	Loans and leasing facilities to companies in RON > 5 years	Loans and leasing facilities to companies in FCY < 5 years	Loans and leasing facilities to companies in FCY > 5 years
Non-default	**131,037**	***8,768***	5,032	-	-	3,736	***122,269***	16,124	593	3,575	101,977
Default	**2,921,483**	***1,075,000***	225,100	190,062	125,559	534,279	***1,846,483***	1,220,656	103,821	307,144	214,862
Total loans and advances, lease receivables to customers before impairment allowance	**3,052,520**	***1,083,768***	**230,132**	**190,062**	**125,559**	**538,015**	***1,968,752***	**1,236,780**	**104,414**	**310,719**	**316,839**
Allowances for impairment losses on loans and lease receivables	**(1,629,670)**	***(587,236)***	(226,401)	(89,027)	(67,324)	(204,484)	***(1,042,434)***	(734,926)	(39,194)	(256,060)	(12,254)
Total loans and advances, lease receivables to customers net of impairment allowance	**1,422,850**	***496,532***	**3,731**	**101,035**	**58,235**	**333,531**	***926,318***	**501,854**	**65,220**	**54,659**	**304,585**

Notes to the separate and consolidated financial statements

4. Financial risk management (*continued*)

b) Credit risk *(continued)*

(ii) Credit risk exposure (continued)

The exposures to credit risk for loans and advances to customers and finance lease receivables **at Group level, as at 31 December 2017** are presented below:

			Loans and leasing facilities to individuals					Loans and leasing facilities to companies				
	Note:			in RON		in FCY			in RON		in FCY	
At amortized cost		**Total 2017**	***Total Individuals***	**< 5 years**	**> 5 years**	**< 5 years**	**> 5 years**	***Total companies***	**< 5 years**	**> 5 years**	**< 5 years**	**> 5 years**
Grade 1 Low risk		**27,312,009**	***15,219,447***	3,995,734	7,961,740	136,579	3,125,394	***12,092,562***	7,892,586	2,075,201	1,133,955	990,820
Grade 2-3 Moderate risk		**1,650,483**	***874,093***	291,069	266,375	80,908	235,741	***776,390***	464,135	43,295	248,977	19,983
Grade 4-6 Medium risk		**513,795**	***90,163***	127	36,296	6	53,734	***423,632***	259,153	94,284	27,006	43,189
Grade 7 High risk		**914,257**	***185,262***	18,185	44,669	10,942	111,466	***728,995***	406,771	134,447	133,883	53,894
Grade 8 Impaired		**1,506,183**	***595,105***	140,264	118,422	23,808	312,611	***911,078***	612,481	68,884	205,158	24,555
Gross value	**22, 23**	**31,896,727**	***16,964,070***	**4,445,379**	**8,427,502**	**252,243**	**3,838,946**	***14,932,657***	**9,635,126**	**2,416,111**	**1,748,979**	**1,132,441**

		Loans and leasing facilities to individuals					Loans and leasing facilities to companies				
			in RON		in FCY			in RON		in FCY	
Gross values, neither past due nor impaired	**Total 2017**	***Total Individuals***	**< 5 years**	**> 5 years**	**< 5 years**	**> 5 years**	***Total companies***	**< 5 years**	**> 5 years**	**< 5 years**	**> 5 years**
Grade 1 Low risk	**26,236,258**	***14,432,393***	3,840,773	7,599,899	127,022	2,864,699	***11,803,865***	7,726,185	2,020,503	1,080,338	976,839
Grade 2-3 Moderate risk	**938,935**	***384,517***	159,402	83,297	70,198	71,620	***554,418***	339,874	16,978	188,726	8,840
Grade 4-6 Medium risk	**257,505**	***2,418***	-	36	6	2,376	***255,087***	102,909	89,008	22,339	40,831
Total	**27,432,698**	***14,819,328***	**4,000,175**	**7,683,232**	**197,226**	**2,938,695**	***12,613,370***	**8,168,968**	**2,126,489**	**1,291,403**	**1,026,510**

4. Financial risk management (*continued*)

b) Credit risk *(continued)*

(ii) Credit risk exposure (continued)

Gross values of loans and advances to customers and leases, past due but not impaired	Total 2017	Loans and leasing facilities to individuals					Loans and leasing facilities to companies				
			in RON		in FCY			in RON		in FCY	
		Total Individuals	< 5 years	> 5 years	< 5 years	> 5 years	*Total companies*	< 5 years	> 5 years	< 5 years	> 5 years
1-15 days	**1,179,870**	***874,288***	182,357	386,571	13,901	291,459	***305,582***	176,946	56,203	57,739	14,694
15-30 days	**364,871**	***245,472***	48,137	106,394	2,839	88,102	***119,399***	60,744	9,363	46,082	3,210
30-60 days	**260,498**	***195,757***	39,130	73,105	2,791	80,731	***64,741***	40,038	10,979	7,901	5,823
60-90 days	**66,968**	***41,374***	17,004	13,347	736	10,287	***25,594***	17,582	4,470	2,146	1,396
Total	**1,872,207**	***1,356,891***	**286,628**	**579,417**	**20,267**	**470,579**	***515,316***	**295,310**	**81,015**	**113,868**	**25,123**

Gross value of loans, receivables and leases to customers, impaired	Total 2017	Loans and leasing facilities to individuals					Loans and leasing facilities to companies				
			in RON		in FCY			in RON		in FCY	
		Total Individuals	< 5 years	> 5 years	< 5 years	> 5 years	*Total companies*	< 5 years	> 5 years	< 5 years	> 5 years
Grade 4-6 Medium risk	**171,382**	***7,484***	127	1,762	-	5,595	***163,898***	151,596	5,276	4,667	2,359
Grade 7 High risk	**914,257**	***185,262***	18,185	44,669	10,942	111,466	***728,995***	406,771	134,447	133,883	53,894
Grade 8 Impaired	**1,506,183**	***595,105***	140,264	118,422	23,808	312,611	***911,078***	612,481	68,884	205,158	24,555
Total	**2,591,822**	***787,851***	**158,576**	**164,853**	**34,750**	**429,672**	***1,803,971***	**1,170,848**	**208,607**	**343,708**	**80,808**

Impairment allowances	Note:	Total 2017	Loans and leasing facilities to individuals					Loans and leasing facilities to companies				
				in RON		in FCY			in RON		in FCY	
			Total Individuals	< 5 years	> 5 years	< 5 years	> 5 years	*Total companies*	< 5 years	> 5 years	< 5 years	> 5 years
Individual		**(992,667)**	***(107,874)***	(13,168)	(37,987)	(3,237)	(53,482)	***(884,793)***	(568,607)	(108,601)	(175,730)	(31,855)
Collective		**(831,844)**	***(507,155)***	(174,120)	(107,292)	(8,212)	(217,531)	***(324,689)***	(215,324)	(40,340)	(42,858)	(26,167)
Total impairment allowances	**21. 22**	**(1,824,511)**	***(615,029)***	**(187,288)**	**(145,279)**	**(11,449)**	**(271,013)**	***(1,209,482)***	**(783,931)**	**(148,941)**	**(218,588)**	**(58,022)**

Notes to the separate and consolidated financial statements

4. Financial risk management (*continued*)

b) Credit risk *(continued)*

(ii) Credit risk exposure (continued)

The exposures to credit risk for loans and advances to customers at **Bank** level, as at **31 December 2018**, are presented below:

At amortized cost	Assets with respect to which the credit risk has not increased significantly since the initial recognition (Stage 1)	Assets with respect to which the credit risk has significantly increased since the initial recognition, but which are not impaired (Stage 2)	Assets impaired at the reporting date (Stage 3)	Assets impaired on initial recognition (POCI)	Total
Loans in RON - retail customers < 5 years	5,845,950	233,495	211,908	18,883	6,310,236
Loans in RON - retail customers > 5 years	9,125,116	582,187	171,632	21,976	9,900,911
Loans in FCY - company customers < 5 years	169,584	28,245	113,500	12,302	323,631
Loans in FCY - retail customers > 5 years	3,232,368	965,170	372,689	104,720	4,674,947
Total Retail loans	***18,373,018***	***1,809,097***	***869,729***	***157,881***	***21,209,725***
Loans in RON - company customers < 5 years	7,972,925	1,686,539	1,155,155	87,478	10,902,097
Loans in RON - company customers > 5 years	2,043,572	398,983	78,193	28,199	2,548,947
Loans in FCY - company customers < 5 years	1,862,903	161,033	252,670	67,763	2,344,369
Loans in FCY - company customers > 5 years	1,591,382	187,967	21,639	8,981	1,809,969
Total loans to companies	***13,470,782***	***2,434,522***	***1,507,657***	***192,421***	***17,605,382***
Total loans and advances to customers before impairment allowance	**31,843,800**	**4,243,619**	**2,377,386**	**350,302**	**38,815,107**
Allowances for impairment losses on loans	***(458,348)***	***(517,631)***	***(1,430,314)***	***(52,840)***	***(2,459,133)***
Total loans and advances to customers net of impairment allowance	**31,385,452**	**3,725,988**	**947,072**	**297,462**	**36,355,974**

Notes to the separate and consolidated financial statements

4. Financial risk management (*continued*)

b) Credit risk *(continued)*

(ii) Credit risk exposure (continued)

The exposures to credit risk for loans and advances to customers at Bank level, as at 1 January 2018, are presented below:

At amortized cost	Assets with respect to which the credit risk has not increased significantly since the initial recognition (Stage 1)	Assets with respect to which the credit risk has significantly increased since the initial recognition, but which are not impaired (Stage 2)	Assets impaired at the reporting date (Stage 3)	Assets impaired on initial recognition (POCI)	Total
Loans in RON - retail customers < 5 years	3,997,050	137,812	131,700	446	4,267,008
Loans in RON - retail customers > 5 years	7,821,342	427,910	170,292	9,976	8,429,520
Loans in FCY - company customers < 5 years	129,864	15,846	29,306	1,338	176,354
Loans in FCY - retail customers > 5 years	2,677,133	748,492	392,675	63,409	3,881,709
Total Retail loans	***14,625,389***	***1,330,060***	***723,973***	***75,169***	***16,754,591***
Loans in RON - company customers < 5 years	7,307,758	884,234	1,096,670	49,313	9,337,975
Loans in RON - company customers > 5 years	2,020,163	309,280	152,052	29,007	2,510,502
Loans in FCY - company customers < 5 years	1,150,687	136,452	259,265	39,657	1,586,061
Loans in FCY - company customers > 5 years	940,471	251,692	111,084	8,768	1,312,015
Total loans to companies	***11,419,079***	***1,581,658***	***1,619,071***	***126,745***	***14,746,553***
Total loans and advances to customers before impairment allowance	**26,044,468**	**2,911,718**	**2,343,044**	**201,914**	**31,501,144**
Allowances for impairment losses on loans	***(248,346)***	***(337,455)***	***(1,263,490)***	***(34,513)***	***(1,883,804)***
Total loans and advances to customers net of impairment allowance	**25,796,122**	**2,574,263**	**1,079,554**	**167,401**	**29,617,340**

Notes to the separate and consolidated financial statements

4. Financial risk management (*continued*)

b) Credit risk *(continued)*

(ii) Credit risk exposure (continued)

The exposures to credit risk for loans and advances to customers at **Bank** consolidated level, as at **31 December 2018**, are presented below:

Gross value of loans and advances to customers, not impaired, Stage 1	**Total 2018**	***Total Individuals***	**Loans and leasing facilities to individuals** in RON		in FCY		***Total companies***	**Loans and leasing facilities to companies** in RON		in FCY	
			< 5 years	**> 5 years**	**< 5 years**	**> 5 years**		**< 5 years**	**> 5 years**	**< 5 years**	**> 5 years**
Very low risk	**9,211,330**	***6,377,059***	2,215,274	3,160,224	54,946	946,615	***2,834,271***	1,520,791	683,558	379,477	250,445
Low risk	**17,254,305**	***10,864,379***	3,394,076	5,474,110	103,837	1,892,356	***6,389,926***	3,779,325	903,557	768,751	938,293
Moderate risk	**4,702,389**	***758,716***	167,237	347,133	6,791	237,555	***3,943,673***	2,495,564	421,360	639,692	387,057
Sensitive risk	**675,776**	***372,864***	69,363	143,649	4,010	155,842	***302,912***	177,245	35,097	74,983	15,587
Total loans and advances to customers before impairment allowance	**31,843,800**	***18,373,018***	**5,845,950**	**9,125,116**	**169,584**	**3,232,368**	***13,470,782***	**7,972,925**	**2,043,572**	**1,862,903**	**1,591,382**
Allowances for impairment losses on loans	**(458,348)**	***(79,953)***	(65,034)	(7,073)	(399)	(7,447)	***(378,395)***	(250,906)	(34,660)	(62,116)	(30,713)
Total loans and advances to customers net of impairment allowance	**31,385,452**	***18,293,065***	**5,780,916**	**9,118,043**	**169,185**	**3,224,921**	***13,092,387***	**7,722,019**	**2,008,912**	**1,800,787**	**1,560,669**

Notes to the separate and consolidated financial statements

4. Financial risk management (*continued*)

b) Credit risk *(continued)*

(ii) Credit risk exposure (continued)

Gross value of loans and advances to customers, not impaired, Stage 1	Total 2018	*Total Individuals*	Loans to individuals in RON < 5 years	Loans to individuals in RON > 5 years	Loans to individuals in FCY < 5 years	Loans to individuals in FCY > 5 years	*Total companies*	Loans to companies in RON < 5 years	Loans to companies in RON > 5 years	Loans to companies in FCY < 5 years	Loans to companies in FCY > 5 years
0 days	**30,787,460**	***17,422,030***	5,600,358	8,692,761	159,203	2,969,708	***13,365,430***	7,924,865	1,999,495	1,860,426	1,580,644
1-15 days	**820,881**	***736,177***	187,272	336,617	8,350	203,938	***84,704***	38,589	32,977	2,400	10,738
15-30 days	**235,459**	***214,811***	58,320	95,738	2,031	58,722	***20,648***	9,471	11,100	77	-
Total loans and advances to customers before impairment allowance	**31,843,800**	***18,373,018***	**5,845,950**	**9,125,116**	**169,584**	**3,232,368**	***13,470,782***	**7,972,925**	**2,043,572**	**1,862,903**	**1,591,382**
Allowances for impairment losses on loans	**(458,348)**	***(79,953)***	(65,034)	(7,073)	(399)	(7,447)	**(378,395)**	(250,906)	(34,660)	(62,116)	(30,713)
Total loans and advances to customers net of impairment allowance	**31,385,452**	***18,293,065***	**5,780,916**	**9,118,043**	**169,185**	**3,224,921**	***13,092,387***	**7,722,019**	**2,008,912**	**1,800,787**	**1,560,669**

Gross value of loans and advances to customers, not impaired, Stage 2	Total 2018	*Total Individuals*	Loans and leasing facilities to individuals in RON < 5 years	Loans and leasing facilities to individuals in RON > 5 years	Loans and leasing facilities to individuals in FCY < 5 years	Loans and leasing facilities to individuals in FCY > 5 years	*Total companies*	Loans and leasing facilities to companies in RON < 5 years	Loans and leasing facilities to companies in RON > 5 years	Loans and leasing facilities to companies in FCY < 5 years	Loans and leasing facilities to companies in FCY > 5 years
Low-moderate risk	**1,893,579**	***664,024***	33,463	209,691	9,789	411,081	***1,229,555***	773,253	269,179	88,012	99,111
Sensitive risk	**1,410,478**	***664,737***	127,819	218,093	11,948	306,877	***745,741***	557,992	76,387	50,740	60,622
High risk	**968,953**	***495,237***	72,863	157,949	6,751	257,674	***473,716***	361,161	55,395	27,352	29,808
Total loans and advances to customers before impairment allowance	**4,273,010**	***1,823,998***	**234,145**	**585,733**	**28,488**	**975,632**	***2,449,012***	**1,692,406**	**400,961**	**166,104**	**189,541**
Allowances for impairment losses on loans	**(522,048)**	***(235,321)***	(96,977)	(42,255)	(3,234)	(92,855)	***(286,727)***	(248,695)	(16,223)	(14,568)	(7,241)
Total loans and advances to customers net of impairment allowance	**3,750,962**	***1,588,677***	**137,168**	**543,478**	**25,254**	**882,777**	***2,162,285***	**1,443,711**	**384,738**	**151,536**	**182,300**

Notes to the separate and consolidated financial statements

4. Financial risk management (*continued*)

b) Credit risk *(continued)*

(ii) Credit risk exposure (continued)

Gross value of loans and advances to customers, not impaired, Stage 2	Total 2018	*Total Individuals*	Loans to individuals				*Total companies*	Loans to companies			
			in RON		in FCY			in RON		in FCY	
			< 5 years	> 5 years	< 5 years	> 5 years		< 5 years	> 5 years	< 5 years	> 5 years
0-30 days	**3,854,838**	***1,509,439***	159,422	473,781	24,904	851,332	***2,345,399***	1,624,615	386,065	162,256	172,463
30-60 days	**328,358**	***241,497***	51,380	88,899	2,587	98,631	***86,861***	55,144	11,984	3,779	15,954
60-90 days	**89,814**	***73,062***	23,343	23,053	997	25,669	***16,752***	12,647	2,912	69	1,124
Total loans and advances to customers before impairment allowance	**4,273,010**	***1,823,998***	**234,145**	**585,733**	**28,488**	**975,632**	***2,449,012***	**1,692,406**	**400,961**	**166,104**	**189,541**
Allowances for impairment losses on loans	**(522,048)**	***(235,321)***	(96,977)	(42,255)	(3,234)	(92,855)	***(286,727)***	(248,695)	(16,223)	(14,568)	(7,241)
Total loans and advances to customers net of impairment allowance	**3,750,962**	***1,588,677***	**137,168**	**543,478**	**25,254**	**882,777**	***2,162,285***	**1,443,711**	**384,738**	**151,536**	**182,300**

Gross value of loans and advances to customers, impaired, Stage 3 and POCI	Total 2018	*Total Individuals*	Loans and leasing facilities to individuals				*Total companies*	Loans and leasing facilities to companies			
			in RON		in FCY			in RON		in FCY	
			< 5 years	> 5 years	< 5 years	> 5 years		< 5 years	> 5 years	< 5 years	> 5 years
Non-default	**25,759**	***5,031***	5,031	-	-	-	***20,728***	16,124	593	3,575	436
Default	**2,672,538**	***1,007,678***	225,110	190,062	125,559	466,947	***1,664,860***	1,220,642	103,821	311,787	28,610
Total loans and advances to customers before impairment allowance	**2,698,297**	***1,012,709***	**230,141**	**190,062**	**125,559**	**466,947**	***1,685,588***	**1,236,766**	**104,414**	**315,362**	**29,046**
Allowances for impairment losses on loans	**(1,478,737)**	***(543,564)***	(183,636)	(88,973)	(66,690)	(204,265)	***(935,173)***	(710,399)	(39,072)	(173,592)	(12,110)
Total loans and advances to customers net of impairment allowance	**1,219,560**	***469,145***	**46,505**	**101,089**	**58,869**	**262,682**	***750,415***	**526,367**	**65,342**	**141,770**	**16,936**

Notes to the separate and consolidated financial statements

4. Financial risk management (*continued*)

b) Credit risk *(continued)*

(ii) Credit risk exposure (continued)

The exposures to credit risk for loans and advances to customers **at Bank level, as at 31 December 2017** are presented below, at individual level:

			Loans to individuals					Loans to companies			
			in RON		in FCY			in RON		in FCY	
At amortized cost	Total 2017	*Total Individuals*	< 5 years	> 5 years	< 5 years	> 5 years	*Total companies*	< 5 years	> 5 years	< 5 years	> 5 years
Grade 1 Low risk	**27,865,965**	***15,210,290***	3,986,577	7,961,740	136,580	3,125,393	***12,655,675***	8,010,831	2,206,285	1,266,131	1,172,428
Grade 2-3 Moderate risk	**799,327**	***650,397***	140,908	265,513	8,456	235,520	***148,930***	93,689	32,172	10,638	12,431
Grade 4-6 Medium risk	**516,562**	***90,163***	127	36,296	6	53,734	***426,399***	258,732	94,284	30,194	43,189
Grade 7 High risk	**910,082**	***185,259***	18,185	44,669	10,939	111,466	***724,823***	402,990	134,447	133,492	53,894
Grade 8 Impaired	**1,376,974**	***553,219***	102,364	118,422	19,822	312,611	***823,755***	581,814	67,557	149,829	24,555
Gross value	**31,468,910**	***16,689,328***	**4,248,161**	**8,426,640**	**175,803**	**3,838,724**	***14,779,582***	**9,348,056**	**2,534,745**	**1,590,284**	**1,306,497**

			Loans to individuals					Loans to companies			
			in RON		in FCY			in RON		in FCY	
Gross values, neither past due nor impaired	**Total 2017**	***Total Individuals***	**< 5 years**	**> 5 years**	**< 5 years**	**> 5 years**	***Total companies***	**< 5 years**	**> 5 years**	**< 5 years**	**> 5 years**
Grade 1 Low risk	**26,790,821**	***14,423,237***	3,831,616	7,599,899	127,023	2,864,699	***12,367,584***	7,844,957	2,151,587	1,212,595	1,158,445
Grade 2-3 Moderate risk	**224,268**	***194,752***	39,280	82,435	1,638	71,399	***29,516***	20,563	6,116	1,556	1,281
Grade 4-6 Medium risk	**260,692**	***2,417***	-	36	6	2,375	***258,275***	102,909	89,008	25,527	40,831
Total	**27,275,781**	***14,620,406***	**3,870,896**	**7,682,370**	**128,667**	**2,938,473**	***12,655,375***	**7,968,429**	**2,246,711**	**1,239,678**	**1,200,557**

Notes to the separate and consolidated financial statements

4. Financial risk management (*continued*)

b) Credit risk *(continued)*

(ii) Credit risk exposure (continued)

			Loans to individuals					Loans to companies			
			in RON		in FCY			in RON		in FCY	
Gross values, past due but not impaired	**Total 2017**	***Total Individuals***	**< 5 years**	**> 5 years**	**< 5 years**	**> 5 years**	***Total companies***	**< 5 years**	**> 5 years**	**< 5 years**	**> 5 years**
1-15 days	**1,149,441**	***851,876***	163,340	386,571	10,506	291,459	***297,565***	170,989	55,969	55,912	14,695
15-30 days	**280,718**	***244,741***	47,719	106,394	2,526	88,102	***35,977***	20,887	9,336	2,537	3,217
30-60 days	**245,057**	***188,792***	32,349	73,105	2,607	80,731	***56,265***	36,235	10,979	3,228	5,823
60-90 days	**59,998**	***37,551***	13,181	13,347	736	10,287	***22,447***	15,640	4,470	941	1,396
Total	**1,735,214**	***1,322,960***	**256,589**	**579,417**	**16,375**	**470,579**	***412,254***	**243,751**	**80,754**	**62,618**	**25,131**

			Loans to individuals					Loans to companies			
			in RON		in FCY			in RON		in FCY	
Gross value of loans and receivables with specific adjustments (individual)	**Total 2017**	***Total Individuals***	**< 5 years**	**> 5 years**	**< 5 years**	**> 5 years**	***Total companies***	**< 5 years**	**> 5 years**	**< 5 years**	**> 5 years**
Grade 4-6 Medium risk	**170,859**	***7,484***	127	1,762	-	5,595	***163,375***	151,072	5,276	4,667	2,360
Grade 7 High risk	**910,082**	***185,259***	18,185	44,669	10,939	111,466	***724,823***	402,990	134,447	133,492	53,894
Grade 8 Impaired	**1,376,974**	***553,219***	102,364	118,422	19,822	312,611	***823,755***	581,814	67,557	149,829	24,555
Total	**2,457,915**	***745,962***	**120,676**	**164,853**	**30,761**	**429,672**	***1,711,953***	**1,135,876**	**207,280**	**287,988**	**80,809**

Notes to the separate and consolidated financial statements

4. Financial risk management (*continued*)

b) Credit risk *(continued)*

(ii) Credit risk exposure (continued)

			Loans to individuals					Loans to companies			
			in RON		in FCY			in RON		in FCY	
Impairment allowances	**Total 2017**	***Total Individuals***	**< 5 years**	**> 5 years**	**< 5 years**	**> 5 years**	***Total companies***	**< 5 years**	**> 5 years**	**< 5 years**	**> 5 years**
Individual	**(954,090)**	***(102,342)***	(7,884)	(37,987)	(2,989)	(53,482)	***(851,748)***	(557,440)	(107,987)	(154,466)	(31,855)
Collective	**(777,527)**	***(468,608)***	(135,973)	(107,289)	(7,816)	(217,530)	***(308,919)***	(210,526)	(41,395)	(29,316)	(27,682)
Total impairment allowances	**(1,731,617)**	***(570,950)***	**(143,857)**	**(145,276)**	**(10,805)**	**(271,012)**	***(1,160,667)***	**(767,966)**	**(149,382)**	**(183,782)**	**(59,537)**

Restructured exposures are represented by debt contracts in which certain concessions are granted to a debtor who is experiencing or is about to face difficulties in meeting its financial commitments, concessions which would not have been granted if the debtor had not been in financial difficulty.

The outstanding loans classified according to the above definition are in amount of RON 1,907,570 thousand (2017: RON thousand 1,921,499) at Group level and in amount of RON 1,685,156 thousand at Bank level (2017: RON 1,883,237 thousand).

As at 31 December 2018, the Group holds cash and cash equivalents with the Central Bank in amount of RON 2,255,988 thousand, whereas the Bank holds cash and cash equivalents of RON 1,991,976 thousand (31 December 2017: RON 1,286,551 thousand for the Group and RON 1,986,518 for the Bank).

As at 31 December 2018, the placements with banks and debt instruments in the category of financial assets measured at amortized cost were not overdue or depreciated. For this asset category, the institution calculated and created expected loss allowances for the next 12 months in amount of RON 668 thousand at Group level and RON 91 thousand at Bank level (as at 31 December 2017 placements with banks and investment securities were neither past due nor impaired).

Placements with banks have ratings between AAA and B3, according to the ratings issued by Standard & Poor's, Moody's and Fitch, if available. As concerns the Group's and the Bank's placements with credit institutions that are not rated by Standard & Poor's, Moody's or Fitch, the Standard & Poor's sovereign rating was used (note 20).

4. Financial risk management (*continued*)

b) Credit risk *(continued)*

(ii) Credit risk exposure (continued)

As at 31 December 2018, the financial assets which are required to be measured at fair value through other items of comprehensive income include treasury bills and bonds issued by the Government of Romania, with a Standard & Poor's rating of BBB-, bonds issued by the Ministry of Finance of the Republic of Moldova with a sovereign rating B, bonds issued by municipalities with a rating of BBB- and BB+, bonds issued by other financial institutions rated A- and AAA and bonds issued by other non-financial institutions rated BBB- (note 24).

As at 31 December 2017, the available-for-sale financial assets include treasury bills and bonds issued by the Government of Romania, with a Standard & Poor's rating of BBB-, bonds issued by municipalities with a rating of BBB- and BB+, bonds issued by other financial institutions rated A- and BBB and bonds issued by other non-financial institutions rated BB (note 24).

Impairment allowances

Based on future scenarios, the Group assesses the expected credit loss ("ECL") related to the assets in the form debt instruments measured at amortized cost.

The Group recognizes 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; and
- 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.

Derecognition policy

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and

(i) the Group transfers substantially all the risks and rewards of ownership, or

(ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.

The Group enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards.

The transactions are accounted for as 'pass through' transfers that result in derecognition if the Group:

- Has no obligation to make payments unless it collects equivalent amounts from the assets;
- Is prohibited from selling or pledging the assets; and
- Has an obligation to remit any cash it collects from the assets without material delay.

Collateral (shares and bonds) furnished by the Group under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met.

4. Financial risk management (*continued*)

b) Credit risk *(continued)*

(ii) Credit risk exposure (continued)

Guarantee Policy

The Group and the Bank hold collateral against loans and advances to customers in the form of mortgages over land and buildings, pledges on equipment and inventories, insurance policies and other guarantees. The Group and the Bank have ownership rights over these guarantees until the end of the contract. The estimates of fair value are based on the collateral value assessed on the loan granting date and periodically updated afterwards.
The pledges presented below comprise pledged without dispossession and do not include guarantees related to the lease contracts granted by BT Leasing IFN SA.

Property includes land, residential and commercial buildings, and the category "Other collateral" includes pledges from clients, pledges with dispossession, collateral deposits and received guarantees.

An analysis of the collateral values split per types of loans and advances granted to customers is presented below:

	Group		**Bank**	
In RON thousand	**2018**	**2017**	**2018**	**2017**
Collaterals related to loans with moderate, medium and high risk and impaired loans				
Property	7,389,768	3,527,998	6,950,350	3,512,288
Security interests in movable property	715,765	405,899	606,275	393,003
Other collateral	242,578	92,008	210,367	89,231
	8,348,111	**4,025,905**	**7,766,992**	**3,994,522**
				Collaterals related to loans with low risk
Property	27,804,597	23,965,037	27,367,614	23,969,073
Security interests in movable property	1,894,116	2,259,073	1,894,116	2,381,928
Other collateral	2,441,426	2,222,160	2,433,614	2,242,142
	32,140,139	**28,446,270**	**31,695,344**	**28,593,143**
Total	**40,488,250**	**32,472,175**	**39,462,336**	**32,587,665**

The financial effect of the Group collateral is presented as a separate booking of the collateral values, as follows:

(i) for those assets in which the collateral is equal to or higher than the book value of the asset ("over-collateralization of assets") and
(ii) for those assets in which the collateral are lower than the book value of the asset ("under-collateralization of assets").

Notes to the separate and consolidated financial statements

4. Financial risk management (*continued*)

b) Credit risk *(continued)*

(ii) Credit risk exposure (continued)

The financial effect of the **Group** guarantee as at **31 December 2018** and **31 December 2017** is the following:

	2018				2017			
	Retail		Companies		Retail		Companies	
In RON thousand	Under-collateralization	Over-collateralization	Under-collateralization	Over-collateralization	Under-collateralization	Over-collateralization	Under-collateralization	Over-collateralization
Exposures stage 1					**Gross exposures, neither past due nor impaired**			
Gross exposure	7,196,226	11,542,083	8,005,237	4,832,033	5,412,632	9,406,696	7,549,343	5,064,027
Collateral	874,858	20,374,061	1,862,132	9,054,519	1,093,805	15,660,753	1,940,165	9,184,597
Exposures stage 2					**Exposures past due but not impaired**			
Gross exposure	1,097,466	966,859	2,585,715	1,212,253	556,978	799,913	319,596	195,720
Collateral	452,654	1,816,197	368,487	2,640,079	201,243	1,398,847	64,741	421,708
Exposures stage 3					**Exposures with specific adjustments**			
Gross exposure	675,276	408,492	1,104,527	864,225	485,858	301,993	1,001,745	802,226
Collateral	237,085	764,773	354,815	1,688,590	211,184	552,985	260,091	1,482,056

The financial effect of the **Bank** guarantee as at 31 **December, 2018** and **31 December, 2017** is the following:

	2018				2017			
	Retail		Companies		Retail		Companies	
In RON thousand	Under-collateralization	Over-collateralization	Under-collateralization	Over-collateralization	Under-collateralization	Over-collateralization	Under-collateralization	Over-collateralization
	Exposures stage 1				**Gross exposures, neither past due nor impaired**			
Gross exposure	6,900,665	11,472,353	8,742,301	4,728,481	5,216,769	9,403,637	7,516,591	5,138,784
Collateral	858,484	20,220,164	1,804,161	8,812,535	1,087,367	15,651,902	1,935,970	9,327,387
Exposures stage 2					**Exposures past due but not impaired**			
Gross exposure	865,380	958,618	1,329,288	1,119,724	523,047	799,913	216,701	195,553
Collateral	449,011	1,799,579	324,936	2,410,156	201,243	1,398,847	64,581	421,301
Exposures stage 3					**Exposures with specific adjustments**			
Gross exposure	605,369	407,340	948,369	737,219	444,824	301,138	910,835	801,118
Collateral	236,973	758,771	323,599	1,463,967	211,184	550,291	259,925	1,477,667

Notes to the separate and consolidated financial statements

4. Financial risk management (*continued*)

b) Credit risk *(continued)*

(ii) Credit risk exposure (continued)

The exposure representing credit risk refers to the following balance-sheet and off balance-sheet items:
- Cash with Central Banks and Deposits with banks;
- Financial assets measured at amortized cost - debt securities;
- Contingent liabilities representing credit risk (irrevocable financial guarantees and uncommitted irrevocable loan commitments).

The tables below show the reconciliation between the gross carrying amount and the net carrying amount of the individual components, of the risk exposure, **consolidated** as at **31 December 2018** and **31 December 2017**:

		Group					
In RON thousand		**2018**			**2017**		
Assets	Notes	**Gross carrying amount**	**Provisions**	**Carrying amount**	**Gross carrying amount**	**Provisions**	**Carrying amount**
Cash and cash equivalents with the National Bank	19	8,069,839	1,229	8,068,610	5,351,174	-	5,351,174
Placements with banks	20	4,650,739	602	4,650,137	5,125,282	-	5,125,282
Loans and advances to customers	22	39,382,268	2,585,766	36,796,502	31,056,875	1,769,989	29,286,886
Finance lease receivables	23	1,108,124	87,542	1,020,582	839,852	54,522	785,330
Financial assets measured at amortized cost - debt securities	24	1,088,350	5,932	1,082,418	222,792	-	222,792
Total on-balance sheet		***54,299,320***	***2,681,071***	***51,618,249***	***42,595,975***	***1,824,511***	***40,771,464***
Irrevocable commitments given		967,677	27,968	939,709	129,975	46	129,929
Irrevocable financial guarantees given		2,842,604	78,105	2,764,499	2,365,310	62,857	2,302,453
Total off-balance sheet		***3,810,281***	***106,073***	***3,704,208***	***2,495,285***	***62,903***	***2,432,382***
Total on and off-balance sheet		**58,109,601**	**2,787,144**	**55,322,457**	**45,091,260**	**1,887,414**	**43,203,846**

Notes to the separate and consolidated financial statements

4. Financial risk management (*continued*)

b) Credit risk *(continued)*

(ii) Credit risk exposure (continued)

The tables below show the reconciliation between the Gross carrying amount and the net book value of the individual components, of the risk exposure, **separate** as at **31 December 2018** and **31 December 2017**:

In RON thousand		**Bank**					
		2018			**2017**		
Assets	Notes	**Gross carrying amount**	**Provisions**	**Carrying amount**	**Gross carrying amount**	**Provisions**	**Carrying amount**
Cash and cash equivalents with the National Bank	19	7,091,615	120	7,091,495	5,351,174	-	5,351,174
Placements with banks	20	4,000,442	26	4,000,416	5,079,500	-	5,079,500
Loans and advances to customers	22	38,815,107	2,459,133	36,355,974	31,468,910	1,731,617	29,737,293
Financial assets measured at amortized cost - debt securities	24	431,164	65	431,099	222,792	-	222,792
Total on-balance sheet		***50,338,328***	***2,459,344***	***47,878,984***	***42,122,376***	***1,731,617***	***40,390,759***
Irrevocable commitments given		358,344	17,579	340,765	95,650	46	95,604
Irrevocable financial guarantees given		2,827,629	77,554	2,750,075	2,368,080	62,861	2,305,219
Total off-balance sheet		***3,185,973***	***95,133***	***3,090,840***	***2,463,730***	***62,907***	***2,400,823***
Total on and off-balance sheet		**53,524,301**	**2,554,477**	**50,969,824**	**44,586,106**	**1,794,524**	**42,791,582**

4. Financial risk management (*continued*)

b) Credit risk *(continued)*

Exposure to high-risk Eurozone countries

The Euro Area (the main economic partner of Romania) presented a slowing-down process over the past quarters, due to the global trade tensions and to the challenges in terms of regional integration, factors partially counterbalanced by the low level of the real financing costs (given the continuity of the expansionary monetary policy).
According to the preliminary estimates of Eurostat the GDP of the Euroland decelerated from 2.4% YoY in 2017 to 1.8% YoY in 2018, the slowest pace since 2014.
There can be noticed the acceleration of the fixed investments from 2.6% YoY in 2017 to 3% YoY in 2018, an evolution supported by the low level of the real financing costs.
On the other hand, the private consumption (the main component of the GDP) decelerated from 1.6% YoY in 2017 to 1.3% YoY in 2018 (the weakest pace since 1014), due to the deterioration of the consumer confidence and to the accumulation of tensions and challenges (global and regional).
At the same time, the public consumption decelerated from 1.1% YoY in 2017 to 1% YoY in 2018.
As regards the financial side of the economy the average annual inflation accelerated from 1.5% in 2017 to 1.8% in 2018, the highest level since 2012. However, the core inflation consolidated at 1% YoY last year.
The acceleration of inflation and the positive output gap determined the European Central Bank to end the asset purchasing program in December 2018.
On the other hand, the central bank signaled the readiness to implement other expansionary measures in the short-run, given the persistence of inflation below the target (2% YoY) and the accumulation of risk factors to the real economy.

Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses).
A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarized below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Group.
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired.

4. Financial risk management (*continued*)

b) Credit risk *(continued)*

Measurement of the expected credit loss allowance (continued)

- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.

Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. Please refer to note 3.1.2.3 for a description of inputs, assumptions and estimation techniques used in measuring the ECL.

A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information.

Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis.

The following diagram summarises the impairment requirements under IFRS 9 (other than purchased or originated credit-impaired financial assets):

Change in credit quality since initial recognition

Stage 1	Stage 2	Stage 3
(Initial recognition)	(Significant increase in credit risk since initial recognition)	(Credit-impaired assets)
12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses

In determining whether a significant increase in credit risk occurred since initial recognition the Group considers reasonable and supportable information that is relevant and can be obtained without undue cost and effort.

The Group considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

Quantitative criteria:

The remaining Lifetime PD at the reporting date has increased, compared to the residual Lifetime PD expected at the reporting date when the exposure was first recognised, so that it exceeds the relevant threshold (assessed also via the movements between various rating notches and also via comparing the PD curves).

These thresholds have been determined separately for different portfolio types, by assessing how the Lifetime PD moves prior to an instrument becoming delinquent. The Lifetime PD movements on instruments which do not subsequently become delinquent have also been assessed, to identify the 'natural' movement in Lifetime PD which is not indicative of a significant increase in credit risk.

4. Financial risk management (*continued*)

b) Credit risk *(continued)*

Measurement of the expected credit loss allowance (continued)

Qualitative criteria:

For Retail portfolios, if the financial asset meets one or more of the following criteria:

- It is classified as performing restructured;
- Subject to Law 77/2016;
- Denominated in high-risk currency;

For Company portfolios, loans are considered impaired, if the borrower meets one or more of the following criteria:

- Significant increase in credit risk perceived by the risk analysis team for individually assessed exposures;
- Significant adverse changes in business, financial and/or economic conditions in which the borrower operates;
- Actual or expected forbearance or restructuring;
- Actual or expected significant adverse change in operating results of the borrower;
- Significant change in collateral value (secured facilities only) which is expected to increase risk of default;
- Early signs of cash flow/liquidity problems such as delay in servicing of trade creditors/loans.

The assessment of SICR incorporates forward-looking information.
In relation to Treasury financial instruments, where a Watchlist is used to monitor credit risk, this assessment is performed at the counterparty level and on a periodic basis. The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the independent Credit Risk team.

Backstop

A backstop is applied and the financial instrument considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments.

Low credit risk exemption

The Group has not used the low credit risk exemption for any financial instruments in the period ended 31 December 2018.

If there is evidence that the SICR criteria are no longer met, the instrument is transferred back to Stage 1. If an exposure has been transferred to Stage 2 based on a qualitative indicator, the Group monitors whether that indicator continues to exist or has changed.

Definition of default and credit-impaired assets

The Group defines a financial instrument as in default, which is fully aligned with the definition of credit- impaired, when it meets one or more of the following criteria:

Quantitative criteria

- The borrower is more than 90 days past due on its contractual payments.

4. Financial risk management (*continued*)

b) Credit risk *(continued)*

Definition of default and credit-impaired assets (continued)

Qualitative criteria

The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where:

- The borrower is in nonperforming forbearance;
- The borrower is insolvent;
- The borrower is in a breach of a significant financial covenant(s);
- An active market for that financial asset has disappeared because of financial difficulties;
- Concessions have been made by the lender relating to the borrower's financial difficulty;
- It is becoming probable that the borrower will enter bankruptcy;
- Financial assets are purchased or originated at a deep discount that reflects the incurred credit losses.

The criteria above have been applied to all financial instruments held by the Group and are consistent with the definition of default used for internal credit risk management purposes. The definitions of *credit-impaired and default* are aligned as far as possible so that stage 3 represents all loans which are considered defaulted or otherwise credit-impaired.

An instrument is considered to no longer be in default (i.e. to have "cured") when it no longer meets any of the default criteria for a consistent period of time, depending on the main trigger for the default classification. This period has been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different possible cure definitions and also expert opinion. For example the healing period for days past due criteria start at 3 months while the healing period for forborne asset start at one year.

Measurement of the expected credit loss Explanation of inputs, assumptions and estimation techniques

The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default and credit-impaired "above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.

EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD).

Loss Given Default (LGD) represents a Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty and availability of collateral or other credit support.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure. The ECL for each future month is then discounted back to the reporting date and summed.

4. Financial risk management (*continued*)

b) Credit risk *(continued)*

Measurement of the expected credit loss Explanation of inputs, assumptions and estimation techniques (continued)

The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.
The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

- For amortising products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12month or lifetime basis.
- • For revolving products, the exposure at default is predicted by taking current drawn balance and adding a "credit conversion factor" which allows for the expected drawdown of the remaining limit by the time of default.

Forward-looking economic information is also included in determining the 12-month and lifetime ECL. These assumptions vary by product type.

The assumptions underlying the ECL are monitored and reviewed on a bi-annual basis.
Forward-looking information incorporated in the ECL models

The assessment of SICR and measurement of ECL incorporates forward-looking information. The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio. Expert judgment has also been applied in this process. Forecasts of these economic variables (the "base economic scenario") are provided by the Group's Economics team and provide the best estimate view of the economy over the next three years. After three years, to project the economic variables out for the full remaining lifetime of each instrument, a mean reversion approach has been used. The impact of these economic variables has been determined by performing statistical regression analysis.

	2018	2019	2020	2021
Real GDP (%, YoY)	3.8	2.8	3.3	3.7
Unemployment rate (%)	4.1	4.3	4.7	5.2
Inflation (HICP) (%)	3.4	3.3	2.7	2.8
Key interest rate ROBOR 3M (%)	3.2	2.6	2.6	2.9
Key interest rate EURIBOR 3M (%)	(0.3)	(0.1)	0.4	0.2
Exchange rate EUR/RON	4.7	4.7	4.8	4.8

In addition to the base economic scenario, the Group also consider other possible scenarios along with scenario weightings. At 1 January 2018 and 31 December 2018, for all portfolios the Group concluded that three scenarios appropriately captured non-linearities. The scenario weightings are determined by a combination of statistical analysis and expert credit judgement, taking account of the range of possible outcomes each chosen scenario is representative of. These probability-weighted ECLs are determined by running each scenario through the relevant ECL model and multiplying it by the appropriate scenario weighting (as opposed to weighting the inputs).
As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Group considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Group's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

4. Financial risk management (continued)

c) Liquidity risk

Liquidity risk represents the current or future risk that the profit and capital may be negatively affected as a result of the Bank's incapacity to pay its due and payable debts when they become due.

Liquidity risk has 2 components: the difficulty in procuring funds at maturity in order to refinance current assets or the inability to convert an asset into cash at a value near its fair value in a reasonable period of time.

The purpose of the liquidity risk management is to obtain the expected return on assets, through a proper management of the liquidities, consciously assumed and adapted to the domestic and international market conditions, the growth of the institution and the general current legal framework.

The Group and the Bank are continuously acting to manage this type of risk.

The Group and the Bank have access to a diverse funding base. Funds are raised by using a broad range of instruments, including deposits from customers or from banks, loans from development institutions and financial institutions and share capital. Access to diverse funding sources improves the flexibility to attract funds, limiting the dependence on one type of financing and on one type of partner and leading to an overall decrease of financing costs.

The Group and the Bank try to maintain a balance between continuity and flexibility in attracting funds, by signing financing contracts with different maturities and in different currencies. The Group and the Bank continually assess liquidity risk by identifying and monitoring changes in the financing contracts, and by diversifying the funding sources.

The operational liquidity management is also performed intraday, so as to ensure all the settlements/payments assumed by the Group and the Bank, on their own behalf or on behalf of their clients, in RON or FCY, on account or in cash, within the internal, legal and mandatory limits.

The Assets and Liabilities Management Committee of the Bank is responsible with the periodic review of liquidity indicators and with the establishment of corrective measures regarding balance sheet figures, so as to eliminate unacceptable deviations in terms of liquidity risk.

Crisis simulation scenarios have been elaborated by considering various intensity levels, various probabilities and different periods of occurrence. Their purpose is to identify / assess potential losses, the potential impact of events or the factors that may generate a liquidity crisis. Additionally, they offer information regarding the impact of liquidity risk determinants on the Bank's capacity to provide liquidity to its customers and to maintain adequate liquidity levels.

Notes to the separate and consolidated financial statements

4. Financial risk management (*continued*)

c) Liquidity risk *(continued)*

The assets and liabilities of the **Group** as at **31 December 2018**, analyzed as per the period remaining until the contractual maturity, on models based on the contractual maturity related to the liquidity band, are the following:

***Group** - In RON thousand*	**Carrying amount**	**Gross value (inflow /outflow)**	**Up to 3 months**	**3-6 months**	**6-12 months**	**1-3 years**	**3 - 5 years**	**Over 5 years**	**No maturity**
Financial liabilities									
Deposits from banks	195,348	(195,366)	(194,959)	(407)	-	-	-	-	-
Deposits from customers	65,160,466	(65,311,554)	(36,523,833)	(5,574,813)	(6,189,307)	(14,435,913)	(2,012,611)	(575,077)	-
Loans from banks and other financial institutions	1,703,551	(1,763,264)	(295,734)	(46,213)	(114,952)	(570,159)	(329,730)	(406,476)	-
Subordinated liabilities and issued bonds	1,655,377	(2,239,082)	(1,411)	(35,620)	(37,247)	(191,741)	(418,807)	(1,554,256)	-
Held-for-trading financial liabilities	4,226	(4,226)	(2,764)	(856)	(12)	(387)	-	(207)	-
Other financial liabilities	648,846	(648,846)	(648,846)	-	-	-	-	-	-
Total financial liabilities	**69,367,814**	**(70,162,338)**	**(37,667,547)**	**(5,657,909)**	**(6,341,518)**	**(15,198,200)**	**(2,761,148)**	**(2,536,016)**	**-**
Financial assets									
Cash and cash equivalents with the National Bank	10,322,121	10,325,707	10,325,707	-	-	-	-	-	-
Placements with banks	4,650,137	4,665,384	4,495,762	126,263	10,642	739	739	31,239	-
Financial assets held for trading and measured at fair value through profit and loss	210,461	210,461	115,029	-	-	-	-	-	95,432
Derivatives	3,066	3,066	2,657	-	-	387	-	22	-
Loans and advances to customers	36,796,502	54,003,122	4,751,499	3,476,615	6,978,135	11,527,187	7,167,476	20,102,210	-
Finance lease receivables	1,020,582	1,212,498	202,726	97,844	190,292	541,953	161,842	17,841	-
Financial assets measured at fair value through other items of comprehensive income	21,374,708	23,387,370	18,805,998	243,568	374,427	1,790,824	988,939	1,166,242	17,372
Financial assets which are required to be measured at fair value through profit or loss	456,127	456,127	258,150	-	-	-	-	-	197,977
Financial assets at amortized cost - debt instruments	1,082,418	1,133,302	391,389	157,514	134,661	243,684	155,335	50,719	-
Other financial assets	843,237	857,164	796,825	39,801	10,698	7,605	2,235	-	-
Total financial assets	**76,759,359**	**96,254,201**	**40,145,742**	**4,141,605**	**7,698,855**	**14,112,379**	**8,476,566**	**21,368,273**	**310,781**
Net balance sheet position		**26,091,863**	**2,478,195**	**(1,516,304)**	**1,357,337**	**(1,085,821)**	**5,715,418**	**18,832,257**	**310,781**

Notes to the separate and consolidated financial statements

4. Financial risk management (*continued*)

c) Liquidity risk *(continued)*

Group - In RON thousand	Carrying amount	Gross value (inflow /outflow)	Up to 3 months	3-6 months	6-12 months	1-3 years	3 - 5 years	Over 5 years	No maturity
31 December 2018									
Off-balance sheet									
Irrevocable commitments given	939,709	967,677	19,008	50,957	581,539	74,887	48,050	193,236	-
Irrevocable financial guarantees given	2,764,499	2,842,604	412,962	307,299	454,927	1,520,026	127,462	19,928	-
Gross value of swap and forward contracts									
- Deliverable amounts	(498,219)	(498,219)	(187,640)	(287,259)	(23,320)	-	-	-	-
- Receivable amounts	686,545	686,545	188,414	286,302	24,176	139,917	-	47,736	-
Net position of derivatives	188,326	188,326	774	(957)	856	139,917	-	47,736	-
Total off-balance sheet	**3,892,534**	**3,998,607**	**432,744**	**357,299**	**1,037,322**	**1,734,830**	**175,512**	**260,900**	**-**
Total net on- and off-balance sheet position		**22,093,256**	**2,045,451**	**(1,873,603)**	**320,015**	**(2,820,651)**	**5,539,906**	**18,571,357**	**310,781**

The assets and liabilities of the **Group** as at **31 December 2017**, analyzed based on the period remaining until the contractual maturity, on models reflecting the customer's historic behavior typologies and on conventional assumptions concerning certain balance sheet items are the following:

Group - In RON thousand	Carrying amount	Gross value (inflow /outflow)	Up to 3 months	3-6 months	6-12 months	1-3 years	3 - 5 years	Over 5 years	No maturity
Financial liabilities									
Deposits from banks	127,946	(127,949)	(127,949)	-	-	-	-	-	-
Deposits from customers	48,932,195	(49,329,651)	(27,948,170)	(4,807,571)	(4,450,120)	(9,997,792)	(1,640,962)	(485,036)	-
Loans from banks and other financial institutions	1,487,022	(1,531,447)	(306,070)	(16,759)	(203,397)	(302,170)	(272,285)	(430,766)	-
Subordinated liabilities and issued bonds	414,578	(533,579)	(3,493)	(9,242)	(108,344)	(88,532)	(37,151)	(286,817)	-
Held-for-trading financial liabilities	11,906	(11,906)	(3,338)	(83)	(8,432)	-	-	(53)	-
Other financial liabilities	1,222,232	(1,222,232)	(1,222,013)	(164)	(55)	-	-	-	-
Total financial liabilities	**52,195,879**	**(52,756,764)**	**(29,611,033)**	**(4,833,819)**	**(4,770,348)**	**(10,388,494)**	**(1,950,398)**	**(1,202,672)**	**-**

Notes to the separate and consolidated financial statements

4. Financial risk management (*continued*)

c) Liquidity risk *(continued)*

***Group** - In RON thousand*	**Carrying amount**	**Gross value (inflow /outflow)**	**Up to 3 months**	**3-6 months**	**6-12 months**	**1-3 years**	**3 - 5 years**	**Over 5 years**	**No maturity**
Financial assets									
Cash and cash equivalents with the National Bank	6,637,725	6,637,725	6,637,725	-	-	-	-	-	-
Placements with banks	5,125,282	5,128,524	4,981,270	81,089	66,165	-	-	-	-
Financial assets at fair value through profit or loss	264,996	265,096	137,615	8	24	618	-	-	126,831
Derivatives	9,854	9,854	1,204	3	8,523	-	-	124	-
Loans and advances to customers	29,286,886	40,301,093	3,363,989	2,636,490	5,041,538	8,607,028	4,997,397	15,654,651	-
Finance lease receivables	785,330	916,045	152,036	74,896	148,354	406,797	126,693	7,269	-
Financial assets available-for-sale	15,821,300	17,003,160	13,491,628	279,131	247,358	1,588,500	663,828	572,571	160,144
Financial assets at amortized cost - debt instruments	222,792	251,054	4,827	3,163	9,744	138,160	64,841	30,319	
Other financial assets	411,063	459,022	403,586	23,528	17,784	3,382	10,742	-	-
Total financial assets	**58,565,228**	**70,971,573**	**29,173,880**	**3,098,308**	**5,539,490**	**10,744,485**	**5,863,501**	**16,264,934**	**286,975**
Net balance sheet position		**18,214,809**	**(437,153)**	**(1,735,511)**	**769,142**	**355,991**	**3,913,103**	**15,062,262**	**286,975**
Off-balance sheet									
Irrevocable commitments given	129,929	129,975	4,969	7,237	50,483	25,865	17,665	23,756	-
Irrevocable financial guarantees given	2,302,453	2,365,310	455,934	285,547	284,122	1,242,985	76,986	19,736	-
Gross value of swap and forward contracts									
- Deliverable amounts	(766,749)	(766,749)	(470,515)	(15,301)	(226,661)	-	-	(54,272)	-
- Receivable amounts	765,060	765,060	468,786	15,341	226,661	-	-	54,272	-
Net position of derivatives	(1,689)	(1,689)	(1,729)	40	-	-	-	-	-
Total off-balance sheet	**2,430,693**	**2,493,596**	**459,174**	**292,824**	**334,605**	**1,268,850**	**94,651**	**43,492**	**-**
Total net on- and off-balance sheet position		**15,721,213**	**(896,327)**	**(2,028,335)**	**434,537**	**(912,859)**	**3,818,452**	**15,018,770**	**286,975**

Notes to the separate and consolidated financial statements

4. Financial risk management (*continued*)

c) Liquidity risk *(continued)*

The assets and liabilities of the **Bank** as at **31 December 2018**, analyzed based on the period remaining until the contractual maturity, on models reflecting the customer's historic behavior typologies and on conventional assumptions concerning certain balance sheet items are the following:

Bank *– In RON thousand*	**Carrying amount**	**Gross value (inflow /outflow)**	**Up to 3 months**	**3-6 months**	**6-12 months**	**1-3 years**	**3 - 5 years**	**Over 5 years**	**No maturity**
Financial liabilities									
Deposits from banks	207,608	(207,626)	(207,219)	(407)	-	-	-	-	-
Deposits from customers	62,522,369	(62,620,493)	(34,712,089)	(5,393,899)	(5,815,924)	(14,115,196)	(2,009,358)	(574,027)	-
Loans from banks and other financial institutions	1,185,556	(1,212,557)	(268,767)	(17,740)	(54,640)	(227,363)	(237,626)	(406,421)	-
Subordinated liabilities and issued bonds	1,651,518	(2,235,223)	(1,412)	(35,620)	(37,247)	(191,741)	(418,807)	(1,550,396)	-
Held-for-trading financial liabilities	4,226	(4,226)	(2,763)	(856)	(12)	(387)	-	(208)	-
Other financial liabilities	532,941	(532,941)	(532,941)	-	-	-	-	-	-
Total financial liabilities	**66,104,218**	**(66,813,066)**	**(35,725,191)**	**(5,448,522)**	**(5,907,823)**	**(14,534,687)**	**(2,665,791)**	**(2,531,052)**	**-**
Financial assets									
Cash and cash equivalents with the National Bank	9,083,471	9,083,471	9,083,471	-	-	-	-	-	-
Placements with banks	4,000,416	4,002,781	3,866,154	126,170	10,457	-	-	-	-
Financial assets at amortized cost - debt instruments	431,099	459,911	48,606	49,086	29,316	225,775	62,735	44,393	-
Derivatives	3,066	3,066	2,657	-	-	387	-	22	-
Equity instruments	12,582	12,581	6,290	-	-	-	-	-	6,291
Loans and advances to customers	36,355,974	52,124,499	4,311,928	3,377,448	6,709,911	11,091,993	6,645,181	19,988,038	-
Financial assets measured at fair value through other items of comprehensive income	21,363,908	23,374,012	18,801,383	243,258	373,676	1,789,169	988,663	1,165,458	12,405
Financial assets which are required to be measured at fair value through profit or loss	609,638	609,638	356,141	-	-	-	-	-	253,497
Equity investments	537,677	537,677	-	-	-	-	-	-	537,677
Other financial assets	811,065	817,778	757,439	39,801	10,698	7,605	2,235	-	-
Total financial assets	**73,208,896**	**91,025,414**	**37,234,069**	**3,835,763**	**7,134,058**	**13,114,929**	**7,698,814**	**21,197,911**	**809,870**
Net balance sheet position		**24,212,348**	**1,508,878**	**(1,612,759)**	**1,226,235**	**(1,419,758)**	**5,033,023**	**18,666,859**	**809,870**

Notes to the separate and consolidated financial statements

4. Financial risk management (*continued*)

c) Liquidity risk *(continued)*

Bank *– In RON thousand*	**Carrying amount**	**Gross value (inflow /outflow)**	**Up to 3 months**	**3-6 months**	**6-12 months**	**1-3 years**	**3 - 5 years**	**Over 5 years**	**No maturity**
31 December 2018									
Off-balance sheet									
Irrevocable commitments given	340,765	358,344	18,293	50,081	75,896	24,833	247	188,994	-
Irrevocable financial guarantees given	2,750,075	2,827,629	408,323	307,007	451,615	1,515,154	125,602	19,928	-
Gross value of swap and forward contracts									
- Deliverable amounts	(498,219)	(498,219)	(187,640)	(287,259)	(23,320)	-	-	-	-
- Receivable amounts	686,545	686,545	188,414	286,302	24,176	139,917	-	47,736	-
Net position of derivatives	188,326	188,326	774	(957)	856	139,917	-	47,736	-
Total off-balance sheet	**3,279,166**	**3,374,299**	**427,390**	**356,131**	**528,367**	**1,679,904**	**125,849**	**256,658**	**-**
Total net on- and off-balance sheet position		**20,838,049**	**1,081,488**	**(1,968,890)**	**697,868**	**(3,099,662)**	**4,907,174**	**18,410,201**	**809,870**

The negative gaps between various balance sheet and off-balance sheet items, as they are presented above, are easy to manage due to the financial assets measured at fair value through other items of comprehensive income, which ensure a high level of flexibility through their diversification and possibility of trading on an active and liquid market.

The assets and liabilities of the **Bank** as at **31 December 2017**, analyzed based on the period remaining until the contractual maturity, on models reflecting the customer's historic behavior typologies and on conventional assumptions concerning certain balance sheet items are the following:

Bank *- In RON thousand*	**Carrying amount**	**Gross value (inflow /outflow)**	**Up to 3 months**	**3-6 months**	**6-12 months**	**1-3 years**	**3 - 5 years**	**Over 5 years**	**No maturity**
Financial liabilities									
Deposits from banks	127,946	(127,949)	(127,949)	-	-	-	-	-	-
Deposits from customers	49,099,201	(49,157,366)	(27,810,036)	(4,802,091)	(4,422,114)	(9,997,480)	(1,640,809)	(484,836)	-
Loans from banks and other financial institutions	1,099,891	(1,125,018)	(293,414)	(6,094)	(39,464)	(178,726)	(176,554)	(430,766)	-
Subordinated liabilities and issued bonds	414,578	(533,579)	(3,493)	(9,242)	(108,344)	(88,532)	(37,151)	(286,817)	-
Held-for-trading financial liabilities	11,906	(11,906)	(3,338)	(83)	(8,432)	-	-	(53)	-
Other financial liabilities	1,143,087	(1,143,237)	(1,143,237)	-	-	-	-	-	-
Total financial liabilities	**51,896,609**	**(52,099,055)**	**(29,381,467)**	**(4,817,510)**	**(4,578,354)**	**(10,264,738)**	**(1,854,514)**	**(1,202,472)**	**-**

4. Financial risk management (*continued*)

c) Liquidity risk *(continued)*

***Bank** – In RON thousand*	**Carrying amount**	**Gross value (inflow /outflow)**	**Up to 3 months**	**3-6 months**	**6-12 months**	**1-3 years**	**3 - 5 years**	**Over 5 years**	**No maturity**
inancial assets									
Cash and cash equivalents with the National Bank	6,637,692	6,637,692	6,637,692	-	-	-	-	-	-
Placements with banks	5,079,500	5,081,830	4,949,684	78,516	53,630	-	-	-	-
Financial assets at amortized cost - debt instruments	222,792	251,055	4,827	3,163	9,744	138,160	64,842	30,319	-
Financial assets at fair value through profit and loss	73,281	73,281	36,641	-	-	-	-	-	36,640
Derivatives	9,854	9,854	1,204	3	8,523	-	-	124	-
Loans and advances to customers	29,737,293	40,653,098	3,403,989	2,658,608	5,122,475	8,744,156	5,039,247	15,684,623	-
Equity investments	156,631	156,631	-	-	-	-	-	-	156,631
Financial assets available-for-sale	16,032,612	17,212,626	13,614,722	278,694	247,285	1,586,833	663,351	571,714	250,027
Other financial assets	388,659	436,618	381,182	23,528	17,784	3,382	10,742	-	-
Total financial assets	**58,338,314**	**70,512,685**	**29,029,941**	**3,042,512**	**5,459,441**	**10,472,531**	**5,778,182**	**16,286,780**	**443,298**
Net balance sheet position		**18,413,630**	**(351,526)**	**(1,774,998)**	**881,087**	**207,793**	**3,923,668**	**15,084,308**	**443,298**
Irrevocable commitments given	95,604	95,650	4,235	4,725	50,163	22,577	-	13,950	-
Irrevocable financial guarantees given	2,305,219	2,368,080	458,321	285,547	284,161	1,243,010	77,105	19,936	-
Gross value of swap and forward contracts									
- Deliverable amounts	(766,749)	(766,749)	(470,515)	(15,301)	(226,661)	-	-	(54,272)	-
- Receivable amounts	765,060	765,060	468,786	15,341	226,661	-	-	54,272	-
Net position of derivatives	(1,689)	(1,689)	(1,729)	40	-	-	-	-	-
Total off-balance sheet	**2,399,134**	**2,462,041**	**460,827**	**290,312**	**334,324**	**1,265,587**	**77,105**	**33,886**	**-**
Net position on- and off-balance sheet		**15,951,589**	**(812,353)**	**(2,065,310)**	**546,763**	**(1,057,794)**	**3,846,563**	**15,050,422**	**443,298**

The negative gaps between various balance sheet and off-balance sheet items, as they are presented above, are easy to manage due to the financial assets measured at fair value through other items of comprehensive income (2017: financial assets available for sale), which ensure a high level of flexibility through their diversification and possibility of trading on an active and liquid market.

4. Financial risk management (*continued*)

d) Market risk

Market risk represents the risk that the earnings of the Group and the Bank or the value of financial instruments held may be negatively affected by adverse market changes in interest rates, foreign exchange rates or other financial ratios. The objective of market risk management is to monitor and maintain financial instrument portfolio exposures within acceptable risk parameters, while optimizing the return on investments.

d1) Interest rate risk from the banking book

Interest rate risk represents the current or future risk for profit and capital to be negatively affected as a result of adverse changes in interest rates.

The Group and the Bank undertake the interest rate risk resulting from funds raised and placed in relation to non-bank customers (interest rate risk from banking activities).
The main sources of interest rate risk are represented by the imperfect correlation between maturity dates (for fixed interest rates) or pricing reset dates (for variable interest rates) with respect to interest bearing assets and liabilities, the adverse changes of the yield curve (un-parallel shift of interest rate curves related to interest bearing assets and liabilities).

The management of interest bearing assets and liabilities is carried out in the context of the Group's/the Bank's exposure to interest rate fluctuations. The Group and the Bank use a mix of fixed and variable interest bearing instruments to control the mismatch between the dates on which the interest on assets and liabilities is adjusted to the market rates or the maturity mismatch between assets and liabilities.

Interest rate risk is managed by monitoring the interest rate GAP (mismatch) and by means of a system of limits and indicators approved on maturity buckets (time intervals) for interest recalculation.
The Assets and Liabilities Management Committee is the body that monitors the compliance with these limits, being assisted in the daily monitoring by the Treasury Department.

Interest rate risk management within the limits is accompanied by a sensitivity analysis of the Group's/the Bank's financial assets and liabilities to various standard interest rate scenarios.

4. Financial risk management (*continued*)

d) Market risk *(continued)*

d1) Interest rate risk from the banking book (continued)

An analysis of the interest bearing assets' and liabilities' sensitivity to interest rate increases or decreases on the market is set out below at Group/Bank level:

In RON thousand	Group				Bank			
	200 basis points Increase	**200 basis points Decrease**	**100 basis points Increase**	**100 basis points Decrease**	**200 basis points Increase**	**200 basis points Decrease**	**100 basis points Increase**	**100 basis points Decrease**
31 December 2018								
Average for the period	790	(790)	395	(395)	718	(718)	(359)	790
Minimum for the period	(30,189)	42	(15,094)	21	(30,189)	42	21	(30,189)
Maximum for the period	41,170	(65)	23,585	(32)	45,522	(65)	(32)	47,170
31 December 2017								
Average for the period	69	(69)	34	(34)	(110)	110	(55)	55
Minimum for the period	(23,748)	54	(11,874)	27	(23,748)	168	(11,874)	84
Maximum for the period	22,616	(40)	11,308	(20)	22,616	(62)	11,308	(31)

In the sensitivity analysis regarding interest rate variation, the Group and the Bank have calculated the impact of potential market interest rate changes on the interest margin for the future financial periods, by taking into consideration the interest rate resetting / re-fixing date with respect to the balance sheet assets and liabilities.

The potential change of the **Bank**'s economic value due to changes of the interest rate levels based on the standardized method is presented in the table below:

In RON thousand	**2018**	**2017**
Own funds	8,947,593	5,651,402
Potential decline in ec value +/- 200bp		
Absolute value	220,937	111,060
Impact on own funds	2.47%	1.97%

The potential change of the **Group**'s economic value based on the standardized method is presented in the table below:

In RON thousand	**2018**	**2017**
Own funds	9,165,890	5,881,317
Potential decline in ec value +/- 200bp		
Absolute value	233,479	128,706
Impact on own funds	2.55%	2.19%

By undertaking GAP analyses, the Bank intended to reduce the gap between assets and liabilities that are sensitive to interest rate fluctuations, both overall and on various time intervals, so that the impact of interest rate fluctuations on the net incomes should be minimized.

Notes to the separate and consolidated financial statements

4. Financial risk management (*continued*)

d) Market risk *(continued)*

d1) Interest rate risk from the banking book (continued)

The table below presents the aggregated amounts of the **Group**'s banking book at carrying amounts, categorized based on the earlier date between the interest modification date and the maturity date, as at **31 December 2018**:

In RON thousand	Up to 6 months	6 - 12 months	1-3 years	3 - 5 years	Over 5 years	Non interest bearing	Total
Financial assets							
Cash and cash equivalents with the National Bank	10,322,121	-	-	-	-	-	10,322,121
Placements with banks	4,639,738	10,399	-	-	-	-	4,650,137
Financial assets measured at amortized cost - debt instruments	566,601	123,372	288,514	57,217	46,714	-	1,082,418
Loans and advances to customers	28,625,248	4,349,285	1,913,948	1,386,350	521,671	-	36,796,502
Finance lease receivables	1,013,936	1,322	5,324	-	-	-	1,020,582
Other financial assets	179,743	19,394	-	-	-	644,100	843,237
Total financial assets	**45,347,387**	**4,503,772**	**2,207,786**	**1,443,567**	**568,385**	**644,100**	**54,714,997**
Financial liabilities							
Deposits from banks	195,348	-	-	-	-	-	195,348
Deposits from customers	54,751,835	8,712,211	759,127	18,347	56,006	862,940	65,160,466
Loans from banks and other financial institutions, subordinated debt and issued bonds	3,316,836	-	-	-	42,092	-	3,358,928
Other financial liabilities	-	-	-	-	-	648,846	648,846
Total financial liabilities	**58,264,019**	**8,712,211**	**759,127**	**18,347**	**98,098**	**1,511,786**	**69,363,588**
Net position	**(12,916,632)**	**(4,208,439)**	**1,448,659**	**1,425,220**	**470,287**	**(867,686)**	**(14,648,591)**
Irrevocable commitments given	69,770	571,274	74,373	47,926	176,366	-	939,709
Irrevocable financial guarantees given	691,797	436,014	1,491,186	126,110	19,392	-	2,764,499
Total off-balance sheet	**761,567**	**1,007,288**	**1,565,559**	**174,036**	**195,758**	**-**	**3,704,208**
Net position on- and off-balance sheet	**(13,678,199)**	**(5,215,727)**	**(116,900)**	**1,251,184**	**274,529**	**(867,686)**	**(18,352,799)**

4. Financial risk management (*continued*)

d) Market risk *(continued)*

d1) Interest rate risk from the banking book (continued)

The table below presents the aggregated amounts of the **Group**'s banking book at carrying amounts, categorized based on the earlier date between the interest modification date and the maturity date, as at **31 December 2017**:

In RON thousand	**Up to 6 months**	**6 - 12 months**	**1-3 years**	**3 - 5 years**	**Over 5 years**	**Non interest bearing**	**Total**
Financial assets							
Cash and cash equivalents with the National Bank	6,637,725	-	-	-	-	-	6,637,725
Placements with banks	5,060,241	65,041	-	-	-	-	5,125,282
Financial assets measured at amortized cost - debt instruments	16,547	6,468	122,910	49,972	26,895	-	222,792
Loans and advances to customers	25,256,241	1,603,865	1,246,042	689,430	491,308	-	29,286,886
Finance lease receivables	785,330	-	-	-	-	-	785,330
Other financial assets	146,293	30,453	-	-	-	234,317	411,063
Total financial assets	**37,902,377**	**1,705,827**	**1,368,952**	**739,402**	**518,203**	**234,317**	**42,469,078**
Financial liabilities							
Deposits from banks	127,946	-	-	-	-	-	127,946
Deposits from customers	41,399,432	7,027,766	440,785	17,369	46,843	-	48,932,195
Loans from banks and other financial institutions, subordinated debt and issued bonds	1,845,118	-	-	-	56,482	-	1,901,600
Other financial liabilities	-	-	-	-	-	1,222,232	1,222,232
Total financial liabilities	**43,372,496**	**7,027,766**	**440,785**	**17,369**	**103,325**	**1,222,232**	**52,183,973**
Net position	**(5,470,119)**	**(5,321,939)**	**928,167**	**722,033**	**414,878**	**(987,915)**	**(9,714,895)**
Irrevocable commitments given	12,160	50,483	25,865	17,665	23,756	-	129,929
Irrevocable financial guarantees given	711,882	277,081	1,220,187	75,096	18,207	-	2,302,453
Total off-balance sheet	**724,042**	**327,564**	**1,246,052**	**92,761**	**41,963**	**-**	**2,432,382**
Net position on- and off-balance sheet	**(6,194,161)**	**(5,649,503)**	**(317,885)**	**629,272**	**372,915**	**(987,915)**	**(12,147,277)**

4. Financial risk management (*continued*)

d) Market risk *(continued)*

d1) Interest rate risk from the banking book (continued)

The table below presents the aggregated amounts of the **Bank**'s banking book at carrying amounts, categorized based on the earlier date between the interest modification date and the maturity date, as at **31 December 2018**:

In RON thousand	**Up to 6 months**	**6 - 12 months**	**1-3 years**	**3 - 5 years**	**Over 5 years**	**Non interest bearing**	**Total**
Financial assets							
Cash and cash equivalents with the National Bank	9,083,471	-	-	-	-	-	9,083,471
Placements with banks	3,990,017	10,399	-	-	-	-	4,000,416
Financial assets at amortized cost - debt instruments	105,424	24,963	213,198	46,629	40,885	-	431,099
Loans and advances to customers	28,329,166	4,322,688	1,832,860	1,350,228	521,032	-	36,355,974
Net lease investments	-	-	-	-	-	-	-
Other financial assets	178,778	19,394	-	-	-	612,893	811,065
Total financial assets	**41,686,856**	**4,377,444**	**2,046,058**	**1,396,857**	**561,917**	**612,893**	**50,682,025**
Financial liabilities							
Deposits from banks	207,608	-	-	-	-	-	207,608
Deposits from customers	52,976,733	8,712,156	759,127	18,347	56,006	-	62,522,369
Loans from banks and other financial institutions, subordinated debt and issued bonds	2,794,982	-	-	-	42,092	-	2,837,074
Other financial liabilities	-	-	-	-	-	532,941	532,941
Total financial liabilities	**55,979,323**	**8,712,156**	**759,127**	**18,347**	**98,098**	**532,941**	**66,099,992**
Net position	**(14,292,467)**	**(4,334,712)**	**1,286,931**	**1,378,510**	**463,819**	**79,952**	**(15,417,967)**
Irrevocable commitments given	68,180	75,382	24,833	247	172,123	-	340,765
Irrevocable financial guarantees given	687,070	432,897	1,486,466	124,250	19,392	-	2,750,075
Total off-balance sheet	**755,250**	**508,279**	**1,511,299**	**124,497**	**191,515**	**-**	**3,090,840**
Net position on- and off-balance sheet	**(15,047,717)**	**(4,842,991)**	**(224,368)**	**1,254,013**	**272,304**	**79,952**	**(18,508,807)**

4. Financial risk management (*continued*)

d) Market risk *(continued)*

d1) Interest rate risk from the banking book (continued)

The table below presents the aggregated amounts of the **Bank**'s banking book at carrying amounts, categorized based on the earlier date between the interest modification date and the maturity date, as at **31 December 2017**:

In RON thousand	**Up to 6 months**	**6 - 12 months**	**1-3 years**	**3 - 5 years**	**Over 5 years**	**Non interest bearing**	**Total**
Financial assets							
Cash and cash equivalents with the National Bank	6,637,692	-	-	-	-	-	6,637,692
Placements with banks	5,026,127	53,373	-	-	-	-	5,079,500
Financial assets at amortized cost - debt instruments	16,547	6,468	122,910	49,972	26,895	-	222,792
Loans and advances to customers	25,818,348	1,583,846	1,182,184	661,607	491,308	-	29,737,293
Net lease investments	-	-	-	-	-	-	-
Other financial assets	146,293	30,453	-	-	-	211,913	388,659
Total financial assets	**37,645,007**	**1,674,140**	**1,305,094**	**711,579**	**518,203**	**211,913**	**42,065,936**
Financial liabilities							
Deposits from banks	127,946	-	-	-	-	-	127,946
Deposits from customers	41,566,438	7,027,766	440,785	17,369	46,843	-	49,099,201
Loans from banks and other financial institutions, subordinated debt and issued bonds	1,457,987	-	-	-	56,482	-	1,514,469
Other financial liabilities	-	-	-	-	-	1,143,087	1,143,087
Total financial liabilities	**43,152,371**	**7,027,766**	**440,785**	**17,369**	**103,325**	**1,143,087**	**51,884,703**
Net position	**(5,507,364)**	**(5,353,626)**	**864,309**	**694,210**	**414,878**	**(931,174)**	**(9,818,767)**
Irrevocable commitments given	8,914	50,163	22,577	-	13,950	-	95,604
Irrevocable financial guarantees given	714,267	277,120	1,220,212	75,213	18,407	-	2,305,219
Total off-balance sheet	**723,181**	**327,283**	**1,242,789**	**75,213**	**32,357**	**-**	**2,400,823**
Net position on- and off-balance sheet	**(6,230,545)**	**(5,680,909)**	**(378,480)**	**618,997**	**382,521**	**(931,174)**	**(12,219,590)**

Notes to the separate and consolidated financial statements

4. Financial risk management (*continued*)

d) Market risk *(continued)*

d2) Currency risk

The Group and the Bank are exposed to currency risk through open positions generated by FX transactions. There is also a risk that the net values of monetary assets and liabilities in foreign currency may change, as a result of exchange rate variation.

The Group and the Bank manage the currency risk based both on classic approach as strict currency position and "stop-loss" limits monitored in real time but also based on VaR type calculations to assess possible changes in the assets and liabilities values.

The **Group**'s monetary assets and liabilities denominated in RON and FCY at **31 December 2018** are presented below:

In RON thousand	**RON**	**EUR**	**USD**	**Other currencies**	**Total**
Monetary assets					
Cash and cash equivalents with the National Bank	5,300,369	3,772,071	135,734	1,113,947	10,322,121
Placements with banks	975,946	2,265,025	988,494	420,672	4,650,137
Financial assets held for trading and measured at fair value through profit and loss	97,980	-	-	-	97,980
Derivatives	3,043	23	-	-	3,066
Loans and advances to customers	27,905,299	7,718,696	176,902	995,605	36,796,502
Finance lease receivables	316,665	701,952	1,965	-	1,020,582
Financial assets measured at fair value through other items of comprehensive income	9,614,349	10,313,129	1,428,278	1,580	21,357,336
Financial assets which are required to be measured at fair value through profit or loss	231,881	68,985	-	-	300,866
Financial assets at amortized cost - debt instruments	186,880	259,410	-	636,128	1,082,418
Other financial assets	627,654	198,694	8,953	7,936	843,237
Total monetary assets	**45,260,066**	**25,297,985**	**2,740,326**	**3,175,868**	**76,474,245**
Monetary liabilities					
Deposits from banks	113,392	26,009	53,926	2,021	195,348
Deposits from customers	37,945,328	22,408,343	2,598,816	2,207,979	65,160,466
Loans from banks and other financial institutions, subordinated debt	396,312	2,793,715	164,993	3,908	3,358,928
Held-for-trading financial liabilities	4,178	48	-	-	4,226
Other financial liabilities	475,851	129,520	26,034	17,441	648,846
Total monetary liabilities	**38,935,061**	**25,357,635**	**2,843,769**	**2,231,349**	**69,367,814**
Net currency position	**6,325,005**	**(59,650)**	**(103,443)**	**944,519**	**7,106,431**
Gross value of swap and forward contracts					
- Deliverable amounts	-	-	(27,231)	(470,988)	(498,219)
- Receivable amounts	250,006	436,539	-	-	686,545
Net position of derivatives	**250,006**	**436,539**	**(27,231)**	**(470,988)**	**188,326**
Net on- and off-balance sheet position	**6,074,999**	**(496,189)**	**(76,212)**	**1,415,507**	**6,918,105**

Notes to the separate and consolidated financial statements

4. Financial risk management (*continued*)

d) Market risk *(continued)*

d2) Currency risk (continued)

The **Group**'s monetary assets and liabilities denominated in RON and FCY at **31 December 2017** are presented below:

In RON thousand	RON	EUR	USD	Other currencies	Total
Monetary assets					
Cash and cash equivalents with the National Bank	3,480,446	3,076,466	30,160	50,653	6,637,725
Placements with banks	2,089,519	1,826,959	839,395	369,409	5,125,282
Financial assets at fair value through profit or loss	50,680	478	-	-	51,158
Derivatives	9,149	705	-	-	9,854
Loans and advances to customers	23,295,775	5,529,386	80,586	381,139	29,286,886
Finance lease receivables	358,239	423,724	3,367	-	785,330
Financial assets at amortized cost - debt instruments	193,314	29,478	-	-	222,792
Financial assets available-for-sale	8,506,247	6,221,619	1,025,886	-	15,753,752
Other financial assets	330,850	76,739	2,408	1,066	411,063
Total monetary assets	**38,314,219**	**17,185,554**	**1,981,802**	**802,267**	**58,283,842**
Monetary liabilities					
Deposits from banks	58,118	33,478	36,080	270	127,946
Deposits from customers	30,705,444	15,956,751	1,831,160	438,840	48,932,195
Loans from banks and other financial institutions, subordinated debt	547,727	1,196,831	157,042	-	1,901,600
Held-for-trading financial liabilities	11,238	668	-	-	11,906
Other financial liabilities	1,095,612	103,706	16,035	6,879	1,222,232
Total monetary liabilities	**32,418,139**	**17,291,434**	**2,040,317**	**445,989**	**52,195,879**
Net currency position	**5,896,080**	**(105,880)**	**(58,515)**	**356,278**	**6,087,963**
Gross value of swap and forward contracts					
- Deliverable amounts	(126,804)	(417,362)	(11,429)	(211,154)	(766,749)
- Receivable amounts	366,323	393,483	5,254	-	765,060
Net position of derivatives	**239,519**	**(23,879)**	**(6,175)**	**(211,154)**	**(1,689)**
Net on- and off-balance sheet position	**5,656,561**	**(82,001)**	**(52,340)**	**567,432**	**6,089,652**

4. Financial risk management (*continued*)

d) Market risk *(continued)*

d2) Currency risk (continued)

The **Bank**'s monetary assets and liabilities denominated in RON and foreign currencies at **31 December 2018** are presented below:

In RON thousand	RON	EUR	USD	Other currencies	Total
Monetary assets					
Cash and cash equivalents with the National Bank	5,298,974	3,614,912	53,843	115,742	9,083,471
Placements with banks	921,821	1,848,279	810,505	419,811	4,000,416
Financial assets at amortized cost - debt instruments	186,880	244,219	-	-	431,099
Derivatives	3,043	23	-	-	3,066
Loans and advances to customers	27,863,756	7,840,751	122,356	529,111	36,355,974
Financial assets measured at fair value through other items of comprehensive income	9,610,096	10,313,129	1,428,278	-	21,351,503
Financial assets which are required to be measured at fair value through profit or loss	445,317	67,899	-	-	513,216
Other financial assets	616,678	187,411	6,862	114	811,065
Total monetary assets	**44,946,565**	**24,116,623**	**2,421,844**	**1,064,778**	**72,549,810**
Monetary liabilities					
Deposits from banks	124,234	34,697	46,656	2,021	207,608
Deposits from customers	38,083,900	21,639,939	2,241,009	557,521	62,522,369
Loans from banks and other financial institutions, subordinated debt	150,374	2,522,129	164,571	-	2,837,074
Held-for-trading financial liabilities	4,178	48	-	-	4,226
Other financial liabilities	401,236	105,443	19,084	7,178	532,941
Total monetary liabilities	**38,763,922**	**24,302,256**	**2,471,320**	**566,720**	**66,104,218**
Net currency position	**6,182,643**	**(185,633)**	**(49,476)**	**498,058**	**6,445,592**
Gross value of swap and forward contracts					
- Deliverable amounts	-	-	(27,231)	(470,988)	(498,219)
- Receivable amounts	250,006	436,539	-	-	686,545
Net position of derivatives	**250,006**	**436,539**	**(27,231)**	**(470,988)**	**188,326**
Net on- and off-balance sheet position	**5,932,637**	**(622,172)**	**(22,245)**	**969,046**	**6,257,266**

Notes to the separate and consolidated financial statements

4. Financial risk management (*continued*)

d) Market risk *(continued)*

d2) Currency risk (continued)

The **Bank**'s monetary assets and liabilities denominated in RON and foreign currencies at **31 December 2017** are presented below:

In RON thousand	RON	EUR	USD	Other currencies	Total
Monetary assets					
Cash and cash equivalents with the National Bank	3,480,414	3,076,466	30,160	50,652	6,637,692
Placements with banks	2,063,527	1,808,123	839,344	368,506	5,079,500
Financial assets at amortized cost - debt instruments	193,314	29,478	-	-	222,792
Derivatives	9,149	705	-	-	9,854
Loans and advances to customers	23,338,573	5,936,635	80,946	381,139	29,737,293
Financial assets available-for-sale	8,707,157	6,232,589	1,025,886	-	15,965,632
Other financial assets	310,125	76,033	2,408	93	388,659
Total monetary assets	**38,102,259**	**17,160,029**	**1,978,744**	**800,390**	**58,041,422**
Monetary liabilities					
Deposits from banks	58,117	33,478	36,080	271	127,946
Deposits from customers	30,850,336	15,978,820	1,831,204	438,841	49,099,201
Loans from banks and other financial institutions, subordinated debt	314,916	1,042,871	156,682	-	1,514,469
Held-for-trading financial liabilities	11,238	668	-	-	11,906
Other financial liabilities	1,033,468	86,728	16,014	6,877	1,143,087
Total monetary liabilities	**32,268,075**	**17,142,565**	**2,039,980**	**445,989**	**51,896,609**
Net currency position	**5,834,184**	**17,464**	**(61,236)**	**354,401**	**6,144,813**
Gross value of swap and forward contracts					
- Deliverable amounts	(126,804)	(417,362)	(11,429)	(211,154)	(766,749)
- Receivable amounts	366,323	393,483	5,254	-	765,060
Net position of derivatives	**239,519**	**(23,879)**	**(6,175)**	**(211,154)**	**(1,689)**
Net on- and off-balance sheet position	**5,594,665**	**41,343**	**(55,061)**	**565,555**	**6,146,502**

By determining and monitoring the net FCY positions and the exchange rate volatility, the Bank aimed at creating a portfolio that is optimally correlated in terms of FCY assets and liabilities, as well as a balanced approach to trading operations on the foreign exchange market.

The table below presents the Profit/Loss sensitivity in the event of potential changes of the exchange rates applicable at the end of the reporting period in relation to the functional currency of the Group entities, considering that all the other variables remain constant:

	Impact on Profit and Loss	
In RON thousand	**2018**	**2017**
EUR increase by up to 20%	37,315	(8,147)
EUR decrease by up to 20%	(37,315)	8,147
USD increase by up to 20%	(3,419)	4,958
USD decrease by up to 20%	3,419	(4,958)
Total	-	-

4. Financial risk management (*continued*)

d) Market risk *(continued)*

d3) Market risk related to trading activity

The main purpose of market risk management is to achieve the expected performance of the trading portfolio, with a proper management of the inherent market risk, consciously assumed and adapted to the market conditions and development of the Bank and the Group, and last but not least to the current legal framework.

General principles applied in order to ensure the adequate management of market risk are:

- Market risk management is adapted and adjusted constantly to the Romanian and the international financial and banking market conditions and to the general economic context.
- In the management of market risk, the bank applies clear principles regarding the suitability, maturity, diversity and risk degree of the component elements.
- Price risk is analyzed within the stress tests operated on the portfolio of shares and fund units held by the Bank.

The Group and the Bank manage the exposure to market risk by monitoring on a daily basis the market value of the held-for-trading portfolio in relation to a system of risk limits approved by the Assets and Liabilities Committee. The held-for-trading portfolio includes fixed-income securities issued on the Romanian or the European market (treasury securities, bonds the issuers of which have ratings higher than the sovereign rating), denominated in RON, EUR and USD, as well as shares issued by Romanian entities and traded on the Bucharest Stock Exchange (which are not directly exposed to interest rate and currency risk, but are exposed to price risk).

Exposure to market risk related to trading activities

Exposure represents market risk relates mainly to the following balance sheet items:

- Held-for-trading financial assets measured at fair value through profit or loss (2017: Financial assets at fair value through profit or loss (excluding equity instruments);
- Derivatives;
- Financial assets which are required to be measured at fair value through profit or loss;
- Financial assets measured at fair value through other items of comprehensive income (2017: available-for-sale financial assets - excluding equity instruments).

The risk exposure on a consolidated and separate basis as at 31 December 2018, respectively 31 December 2017 is presented below:

		Group		**Bank**	
In RON thousand		**2018**	**2017**	**2018**	**2017**
Assets	Notes	**Carrying amount**	**Carrying amount**	**Carrying amount**	**Carrying amount**
Held-for-trading financial assets measured at fair value through profit or loss (2017: Financial assets at fair value through profit or loss (excluding equity instruments)	21	97,980	51,158	-	-
Derivatives	48	3,066	9,854	3,066	9,854
Financial assets which are required to be measured at fair value through profit or loss	21	300,866	-	513,216	-
Financial assets measured at fair value through other items of comprehensive income (2017: available-for-sale financial assets - debt securities)	24	21,357,336	15,753,752	21,351,503	15,965,632
Total on-balance sheet		**21,759,248**	**15,814,764**	**21,867,785**	**15,975,486**

4. Financial risk management (*continued*)

d) Market risk *(continued)*

d3) Market risk related to trading activity (continued)

Exposure to market risk related to trading activities (continued)

The following table presents the sensitivity impact of a possible change in interest rates of +/- 1.00% and in market prices of +/- 10% at P&L level and equity level, all other variables remaining constant:

Group	**31 December 2018**		**31 December 2017**	
In RON thousand	**Impact in profit or loss**	**Impact in equity**	**Impact in profit or loss**	**Impact in equity**
Shares	(1,503)	-	(7,669)	-
OTC derivatives	(89,593)	-	-	(55,120)
Bonds and T-bills	-	(647,779)	-	(433,318)
Total impact	**(91,096)**	**(647,779)**	**(7,669)**	**(488,438)**

Bank	**31 December 2018**		**31 December 2017**	
In RON thousand	**Impact in profit or loss**	**Impact in equity**	**Impact in profit or loss**	**Impact in equity**
Shares	(1,258)	-	(7,328)	-
OTC derivatives	(87,459)	-	-	(53,748)
Bonds and T-bills	-	(647,728)	-	(432,911)
Total impact	**(88,717)**	**(647,728)**	**(7,328)**	**(486,659)**

e) Taxation risk

The Group and the Bank are committed to ensure a sustainable tax risk management by building and maintaining an efficient, effective and transparent tax function within the organization. The Group and the Bank strictly comply with and apply the legal regulations on taxes and duties.

The Romanian tax legislation provides for detailed and complex rules and has faced many changes in the recent years. The interpretation and practical implementation of tax legislation may vary and there is a risk that certain transactions could be construed differently by the tax authorities as compared to the Group's and the Bank's treatment.
Moreover, the conversion to IFRS involved supplementary fiscal implications for the Romanian banks, which are not fully regulated and may generate tax related risk.

The National Agency for Fiscal Administration comprises specialized organizational structures that are able to conduct the fiscal audit of all the entities operating in Romania and such audit may cover both fiscal compliance topics and other legal and regulatory matters. It is likely that the Group and the Bank will continue to be subject to regular tax controls, as new laws and regulations are issued in this field.

4. Financial risk management (*continued*)

f) Business environment

(i) Macroeconomic dynamics and the banking sector

In 2017, the adequate legal framework was adopted for the implementation in Romania of the country-by-country reporting standards (“CbC”), which translates into the national legislation the provisions of the Council Directive (EU) 2016/881 of 25 May 2016 and follows the initiatives in Action 13 of the OECD Base Erosion and Profit Shifting Project (“BEPS”).

According to these regulations, the ultimate parent companies in Romania which control a group of multinational entities (“MNE”) and which obtain a total consolidated income at group level exceeding EUR 750 million, have the obligation to file CbC reporting documentation to the Romanian fiscal authorities. The Group granted particular attention to the implementation of these reporting requirements, which serve the purpose to increase the fiscal transparency of multinational groups and also represent an important step in the Romanian legislation on transfer pricing.

The Romanian economy advanced by 7% YoY in 2017 (the best dynamics since 2008), according to the preliminary assumptions of the National Institute of Statistics (NIS).
This evolution was determined by the normalization of the private consumption (the main component of the GDP) and by the contraction of the fixed investments, due to the maturity of the European post-crisis cycle and to the domestic challenges in terms of macroeconomic equilibria and policy-mix.
The domestic demand contributed by 5.9pp to the YoY GDP growth pace in 2018.

On the one hand, the household consumption advanced by 5.2% YoY, the slowest pace since 2014, due to the rebalancing of the policy-mix. The main component of the GDP was supported last year by the positive labour market climate and by the acceleration of the credit market.
At the same time, the public consumption had a contribution of 0.6pp to the dynamics of the economy in 2018, given the expansionary fiscal and income policies. According to the figures published by the Ministry of Finance the public expenditure rose by 16.8% YoY to RON 322.5bn in 2018. The personnel expenses increased by 23.7% YoY to RON 86.1bn, and the interest expenses advanced by 27.8% YoY to RON 12.9bn. Likewise, transfers climbed by 14.3% YoY to RON 149.6bn.

Last, but not least, the inventories had an important contribution to the Romanian economic growth in 2018: 2.7pp.
On the other hand, the fixed investments contracted by 3.2% YoY in 2018 (the weakest performance since 2013), due to the deceleration of the Euroland economy and to the domestic tensions (macroeconomic equilibria and policy-mix).

At the same time, the net foreign demand continued to have a negative contribution to the GDP YoY pace in 2018 (-1.8 pp), as the exports decelerated to 4.7% YoY (due to the slowing down of the growth pace in the Euro Zone and the deterioration of the international competitiveness of the domestic economy), while the imports advanced by 8.6% YoY under the influence of the relaxed economic policy-mix.

4. Financial risk management (*continued*)

f) Business environment *(continued)*

(i) Macroeconomic dynamics and the banking sector (continued)

As regards the aggregate supply there can be noticed the increase of the value added in the primary sector by 9.9% YoY in 2018.
At the same time, the IT&C rose by 7% YoY in 2018.

The value added in industry decelerated to 4.1% YoY in 2018, due to the slowing-down of the Euroland economy and to the normalization of the domestic private consumption.
Last, but not least, the cyclical component wholesale and retail/repair of motor vehicles and motorcycles/transport and storage/hotels and restaurants rose by 3.9% YoY in 2018.
On the other hand, the constructions (capital and labour intensive sector) contracted by 5.6% YoY in 2018.

The labour market climate continued the improvement trend last year, due to the investments in several sectors, migration and decline of the informal economy. The annual average of unemployment diminished to 4.2% in 2018, the lowest since 1991.

As regards the financial economy there can be noticed the acceleration of inflation, determined by several supply-side shocks: the liberalization of the energy and gas prices; the upward trend for the international oil prices; the increase of the excise duty on tobacco and the reintroduction of the fuel duty (the autumn of 2017); the depreciation of the RON against the EUR.

The average inflation stood at 4.6% YoY in 2018 (4.1% YoY on HICP basis), the highest level since 2011.
However, the YoY dynamics of the consumer prices changed the trend (from upward to downward) at the end of 2018, re-entering the target interval of the Central Bank (1.5% - 3.5%).

The acceleration of the inflationary pressures corroborated with the domestic challenges in terms of macroeconomic equilibria determined the National Bank of Romania (NBR) to increase the monetary policy rate from 1.75% to 2.50% in the first half of 2018.
On the other hand, the Central Bank signaled the consolidation of the monetary policy in the second half of 2018, due to the convergence of inflation towards the target and to the deterioration of the investment climate.

The non-government loans continued the acceleration trend in 2018, an evolution supported by several factors: the affordable level of the real financing costs; the positive labour market climate; the First House Program; the improvement of the financial performance of the banking sector, with positive impact for the supply of services.

The non-government loans rose by an average annual pace of 6.6% in 2018, the best performance since 2009, according to NBR.
This evolution was determined by the increase of the RON denominated non-government loans by an average annual pace of 14.8%.
On the other hand, the FX denominated non-government loans continued the adjustment last year, by an average annual pace of 5.7%.

Notes to the separate and consolidated financial statements

4. Financial risk management (*continued*)

f) Business environment *(continued)*

(i) Macroeconomic dynamics and the banking sector (continued)

In the alternative approach there can be noticed the increase of the household loans by an average annual pace of 9.4% in 2018, an evolution supported by the advance of the real disposable income, the First House Program and the affordable level of the real financing costs.
The corporate loans climbed by only 3.7% YoY on average in 2018, as the investment climate deteriorated.

The non-government loans ended 2018 at RON 251.1bn (a record level), up by 7.9% YoY. At the end of last year the RON component represented 66% of the total non-government loans, the highest level since September 1996.

At the same time, the non-government deposits continued the upward trend in 2018, an evolution supported by: the improvement of the disposable income, the prudent investment approach of the companies and the gradual increase of the interest rates.
The non-government deposits rose by an annual average pace of 10.8% in 2018, according to the NBR statistics. At the end of 2018 the non-government deposits stood at RON 329.7bn (a record level), up by 9% YoY.

Consequently, the loans-to-deposits ratio continued the downward trend last year, to 76.2% in December (a record low level).
The financial performance of the domestic banking sector improved in 2018, an evolution supported by the acceleration of the credit market, the investments in the sector and the restructuring of the non-performing loans.

According to the NBR statistics the NPL ratio declined to 4.95% in December 2018. Last year this indicator stood at 5.71%, down from 8.42% in 2017.
The average annual volume of the total assets in the domestic banking sector rose by 8.4% YoY to RON 440.7bn (a record high level) in 2018.

At the same time, the net aggregate profit climbed by 32.5% YoY to RON 7bn last year, also a record level. The ROA and ROE indicators stood at 1.59% and 14.85%, respectively.

4. Financial risk management (*continued*)

g) Operational risk

Operational risk is the risk of direct or indirect losses arising from a wide variety of causes associated with processes, personnel, internal systems being inadequate or not properly functional, and from external factors such as those arising from regulatory requirements, generally accepted standards of corporate behavior, or natural disasters that lead to the Group's and the Bank's core business disruption. Operational risk affects all business entities, being aggregated at the level of the Group and of the Bank. The Group's and the Bank's objective in terms of operational risk management is to reduce the impact of operational risk events inherent in the bank's activity, to diminish the losses resulting from operational risk events and to provide insurance coverage against the risks which are beyond the bank's control.

In order to reduce the inherent risks in the operational activities of the Group and the Bank, a general risk management framework was developed in accordance with the defined business objectives, the assumed risk appetite, the applicable national and international laws and regulations and the internal norms and policies on operational risk management, which are part of the corporate governance framework.

The strategy of the Group and of Banca Transilvania S.A. to diminish the exposure to operational risks is mainly based on:

- constant compliance of the normative documents with the legal regulations and adjustment to the market conditions;
- personnel training;
- efficiency of the internal control systems (organization and implementation);
- implementation of IT developments and consolidation of the bank's security systems;
- the use of complementary risk mitigation means: insurance policies, outsourcing;
- the implementation of measures for the limitation and reduction of the effects of the identified operational risk incidents, such as: standardization of the current activity, automation of most processes with permanently monitored control points;
- reduction of redundant data volumes collected at the level of different entities of the Bank;
- the application of the recommendations and the conclusions resulting from on-going supervision;
- the update, evaluation and testing of business continuity plans on a regular basis, in particular of those systems that support the critical operational processes of the bank;
- assessment of the products, processes and systems in order to determine the significant ones in terms of inherent operational risk;
- actions for the mitigation of cyber risks, as well as specific protocols to be followed in order to remove/diminish the impact of cyber attacks.

The Risk Management Department together with the Operational and IT Risk Management Department monitor the implementation of the strategy and methodology for the identification, measurement, monitoring, control and mitigation of operational risk in Banca Transilvania S.A. and make sure to inform the Leaders' Committee on the problems, significant trends in terms of operational risks and proposed risk mitigation measures.

The Internal Audit Department and the Risk Management Department monitor the compliance with the Group's and the Bank's standards through regular on-site and off-site inspections. The results of internal audit, operational risk monitoring and control are discussed with the management of the audited business units and a summary is submitted to the Management of the Group and of the Bank.

4. Financial risk management (*continued*)

h) Capital management

The Bank's Board of Directors approves the conceptual design of the internal process for the assessment of the capital adequacy to risks, at least the scope, methodology and general objectives, and establishes the strategy regarding the planning of the capital, own funds and the capital adequacy to risks in Banca Transilvania S.A..

The Board of Directors makes decisions regarding the directions to be followed within the capital adequacy process, establishes the main projects in the field to be implemented, as well as the main objectives to be met for the best control of the correlation of the risks to which the Bank is exposed and the necessary shareholders' equity required to cover them and the development of sound risk management systems.

The National Bank of Romania monitors capital requirements both at the Bank and at the Group level.
Capital adequacy is determined according to the Regulation (EU) No 575/2013 of the European Parliament and of the Council and requires a minimum mandatory own funds level of:

- 4.5 % for core tier 1 own funds;
- 6.0 % for tier 1 own funds;
- 8.0 % for total own funds.

Likewise, pursuant to the regulated approaches for the determination of the minimum capital requirements and the EU Regulation 575/2013 corroborated with the provisions of the NBR Regulation 5/2013 and considering the capital buffers required by the NBR, the Group and the Bank maintain:

- a capital preservation buffer of 1.875% of the total value of the risk-weighted exposures between 1 January 2018 – 31 December 2018;
- an O-SII buffer of 1% of the total risk weighted exposures;
- a systemic risk buffer of 2% of the total value of the risk-weighted exposures (buffer imposed starting with the adequacy ratio calculated for 30 June 2018).

Own funds adequacy

The Bank and the Group use the following calculation methods in order to determine own fund requirements:

- Credit risk: standardized method;
- Market risk: capital requirements with respect to the foreign exchange risk and the trading portfolio are calculated based on the standard method;
- Operational risk: own fund requirements for the coverage of operational risk are calculated according to the base method.

The Bank and the Group comply with the above regulations, the level of the capital adequacy ratio exceeding the minimum mandatory requirements imposed by the law.
As at 31 December 2018 and 31 December 2017, as well as during the years 2018 and 2017, the Group and the Bank complied with all the capital adequacy requirements.

According to the applicable legal requirements on regulatory capital, the Group's and the Bank's own funds include:

- Tier I, which includes subscribed and paid in capital, share premiums, eligible reserves, retained earnings and deductions laid down in the applicable legal provisions;
- Tier II own funds, which include subordinated loans and deductions laid down in the applicable legal provisions;

4. Financial risk management (*continued*)

h) Capital management *(continued)*

Own funds adequacy *(continued)*

The Group manages its capital base in a flexible manner, by monitoring regulatory capital requirements, by anticipating the adequate adjustments required for the achievement of its objectives as well as by optimizing the structure of assets and shareholders' equity.

The planning and monitoring activity takes into consideration the total own funds, on the one hand and the requirements of own funds, on the other hand.

The level and the requirements of own funds as at **31 December 2018** and **31 December 2017** are as follows:

	Group		**Bank**	
In RON thousand	**2018**	**2017**	**2018**	**2017**
Tier 1 own funds	7,562,274	6,072,389	7,343,977	5,902,912
Tier 2 own funds	1,603,616	310,496	1,603,616	310,496
Total own funds	**9,165,890**	**6,382,885**	**8,947,593**	**6,213,408**
Credit risk exposure	31,510,920	22,354,747	27,553,969	21,874,342
Market risk, FX risk, delivery risk exposure	7,727,012	5,344,525	7,394,966	5,308,252
Operational risk exposure	6,863,811	5,358,427	6,605,508	5,151,058
Risk exposure for the adjustment of credit assessment	2,776	4,468	2,776	4,468
Total risk exposure	**46,104,519**	**33,062,167**	**41,557,219**	**32,338,120**

The capital adequacy ratio (CAR) is calculated as a ratio between own funds and total risk-weighted assets:

	Group		**Bank**	
In %	**2018**	**2017**	**2018**	**2017**
Core tier one ratio	16.40	18.37	17.67	18.25
Tier 1 ratio	16.40	18.37	17.67	18.25
CAR	19.88	19.31	21.53	19.21

Note: The calculation of the Group's and the Bank's own funds takes into account the statutory profit of the Group, respectively of the Bank for the financial years ended on 31 December 2018 and on 31 December 2017. Regulatory capital as at 31 December 2018 and 31 December 2017 was calculated according to the IFRS standards endorsed by the European Union.

5. Accounting estimates and significant judgements

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

a) Impairment losses on loans and advances to customers

The Group and the Bank review their loan and finance lease receivables portfolio in order to assess the impairment thereof, at least bi-annually (on a monthly basis for the Bank). In determining whether an impairment loss should be recorded, the Group and the Bank make judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows related to a portfolio of loans and finance lease, before such decrease can be identified with respect to an individual loan/lease investment in that portfolio. For example, the observable data might be the unfavorable changes in the payment behavior of certain debtors within a group or in the economic, national or local circumstances, which correlate with default incidents affecting the debtors' group. When scheduling future cash flows, the management uses estimates based on the past experience related to losses from loans with similar risk characteristics.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any gaps between estimated losses and actual losses, but also to assess the effects of the local financial market uncertainties on the valuation of assets and the debtors' operating environment. The loan loss estimation considers the visible effects of the current market conditions on the individual/collective assessment of impairment losses on loans and advances to customers. Hence, the Group and the Bank have estimated the impairment loss for loans and advances to customers and receivables from finance lease based on the internal methodology and assessed that no further provision for impairment losses is required except as already provided for in the consolidated financial statements.

Individually significant assets are assessed and monitored individually, regardless of the stage allocation, determined using the automated criteria. Thus, a specialized team of experts uses professional judgement to assess the unlikeliness to pay and determine the scenarios used to compute the ECL.

Considering a reduction in the relative threshold used in the lifetime PD SICR analysis, the impairment loss would increase by RON 12,611.80 thousand.
Considering a 12 month increase of the realization horizon used in the impairment loss calculation, the impairment loss would increase by RON 55,705.87 thousand.

b) Fiscal treatment of the bargain gain

In April 2015, the Bank acquired Volksbank Romania S.A. ("VBRO"), recognizing a bargain gain of RON 1,650,600 thousand in the separate and consolidated financial statements as a result of the business combination in accordance with IFRS 3. The Bank considered the bargain gain as non-taxable income for the calculation of the comprehensive income, based on solid arguments such as:

- The Fiscal Code does not contain specific provisions regarding the merger of two or several taxpayers that apply IFRS as basis for accounting and the fiscal legislation is not correlated with the accounting legislation;

5. Accounting estimates and significant judgements *(continued)*

b) Fiscal treatment of the bargain gain (continued)

- Starting 1 Jan 2016, in the Rewritten Fiscal Code, the provisions for domestic mergers were updated and harmonized also in line with Directive 2009/133/EC and in this respect, clearly the intention of the lawmaker was that the specific taxation rules (taking in account the tax neutrality of the merger) should prevail over the general taxation rules.
- The merger with VBRO was based on sound economic grounds (it was not undertaken for certain fiscal benefits). The merger is neutral from a tax point of view i.e. the bargain gain should not be taxable.
- The fiscal treatment should be balanced: considering the opposite case, whereby the purchase price is higher than the value of acquired identifiable assets and liabilities, a positive goodwill would have been recorded, which, as per Romanian fiscal legislation is not to be amortized for fiscal purposes and hence does not have any fiscal impact;
- Avoidance of double taxation;
- European jurisprudence – which stipulates that the EU legislation should prevail when the fiscal legislation of a member state is unclear or lacks specific provisions.

The Bank requested the Romanian fiscal authorities to issue an official opinion on the fiscal treatment of the VBRO bargain gain ("SFIA"). The Bank proposed the consideration of the bargain gain as non-taxable income by taking into account all the arguments presented above.

The Romanian fiscal authorities issued a negative opinion, considering that the bargain gain is taxable (as recorded based on IFRS), the sole argument to sustain this position being that the bargain gain is not included in the list of non-taxable income elements specifically stipulated in the Fiscal Code applicable as of 31 December 2015. The Bank initiated court proceedings in this respect in 2017. The case was submitted to the Court of Appeal of Cluj in April 2017. In November 2017, the Court of Appeal of Cluj admitted the case at trial and issued a judgment in favor of the Bank, confirming the Bank's approach to consider the bargain gain as non-taxable income. The file is before the High Court of Cassation and Justice. According to the expectations of the Bank's management and lawyers, the litigation may last longer, between 1 and 3 years until the file is presented before the High Court of Justice. The Bank considers that the case has great chances to obtain a favorable resolution, given the strong arguments that have been admitted by the Court of Appeal Cluj. However, the tax approach on this matter remains uncertain and if the Bank does not obtain a favorable resolution in court, the Bank will have to consider the bargain gain as taxable income and may incur potential penalties, if applicable.

In 2018, following the acquisition of Bancpost on 3 April 2018 and the subsequent merger by absorbtion on 31 December 2018, the Bank recorded a bargain gain of RON 71,830 thousand which was booked as non-taxable income, similar to the bargain gain related to the acquisition of VBRO. The bargain gain related to the Bancpost was determined based on the purchase price allocation report prepared by a team of independent advisers and appraisers who identified the assets and liabilities taken over from Bancpost in accordance with IFRS 3 and established their fair value as at 31 March 2018.

c) Future fiscal losses realization

Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through the future taxable profits is probable. The estimation of future taxable profits is based on a financial plan and analysis at the level of the Bank's management. The plan takes into consideration several factors, such as the organic growth of operating incomes, a moderate risk approach, tight cost control, increased efficiency and maintenance of a good capital base and a steady liquidity position.

5. Accounting estimates and significant judgements *(continued)*

c) Future fiscal losses realization (continued)

As a result of the merger with VBRO on 31 December 2015, the Bank also took over the fiscal losses incurred by VBRO and carried forward to that respective date, in total amount of RON 3,767,958 thousand. As at 31 December 2018 the Bank recovered fiscal losses taken over from Volksbank Romania (VBRO) vs. 31 December 2017 when they amounted to RON 1,086,380 thousand. The deferred tax asset as at 31 December 2018 amounted to RON 48,687 thousand as compared to 31 December 2017 when it amounted to RON 173,243 thousand). The fiscal loss in amount of RON 46,018 thousand was taken over by the Bank following the merger with Bancpost on 31 December 2018.

d) Risk provisions for abusive clauses

The Bank reviews its assumptions used in the calculation of provisions for abusive clauses based on recent historical data (new litigations against the Bank initiated in the last year and the positive or negative outcome of the litigations closed in the same period) on a yearly basis. In the 2018 financial statements the Bank took into consideration the significant uncertainties existing upon the completion of such statements, but also other potential mitigating factors; therefore a part of this provision outstanding as at 31 December 2017 was reversed in the 2018 income statement.

6. Segment reporting

The Group segment reporting is compliant with the management requirements. The reporting segments are presented in a manner which is consistent with the internal reporting documentation submitted to the Leaders' Committee. The Leaders' Committee, with the assistance of the Board of Directors, is responsible for the allocation of resources and the assessment of the reporting segments' performance, being considered as an operational decision making factor.

The reporting format is based on the internal management reporting format. All items of assets and liabilities, incomes and expenses are allocated to the reporting segments either directly or based on reasonable criteria established by the management.

For a proper reporting of the Group's results per operating segments, a preliminary analysis of clients was conducted for the new subsidiary Victoriabank, in order to determine their classification according to the Group's standards. The segment "Leasing and loans to non-banking financial institutions" includes the leasing and consumer finance companies, as described in Note 1. The remaining non-banking subsidiaries are included in the segment "Other-Group". The "Removals & Adjustments" segment comprises intra-group operations.

The reporting segments are organized and managed separately, depending on the nature of products and services provided, each segment being specialized on certain products and operating on different markets.
A business segment is a component of the Group and of the Bank:

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

6. Segment reporting *(continued)*

2017 was the year when the Bank and the Group operated changes to their reporting segments in order to efficiently deliver dedicated services to company clients. Thus, business models were refined with respect to Large Corporate clients (annual turnover over RON 100 million) and Mid Corporate clients (annual turnover between RON 9 million and RON 100 million). In addition, the specialization in relation to the business needs of the SME entrepreneurs is reflected in a differentiated approach with respect to the Micro Business segment (companies with an annual turnover up to RON 2 million) and the SME segment (companies with an annual turnover between RON 2 million and RON 9 million). The reporting segment changes involved specialized teams, customized products, and dedicated interaction patterns, as described below:

Large Corporate Clients („LaCo”): The Group and the Bank include in this category mainly companies/group of companies with an annual turnover exceeding RON 100 million, as well as legal entities created to serve a particular function (SPV), public entities and financial institutions included in this category based on specific classification criteria. The companies in this category usually have specific and sophisticated needs. Through its centralized and customized approach, the Bank seeks to ensure high operational efficiency, a prompt assessment of the specific needs of this type of clients in order to offer the appropriate customized solutions, but also an in-depth perspective of the risk profile in order to maintain a high quality loan portfolio.
The Large Corporate clients have access to an all inclusive package of banking products and services, the incomes generated by this segment resulting from lending operations, current business operations (transaction banking, Treasury, trade finance and retail products) and other related services (leasing, asset management, consultancy on mergers and acquisitions, capital market advisory services). Through the services provided, the Bank aims at extending its cooperation to the business partners of the LaCo segment - clients/suppliers/employees - by focusing on the increase of non-risk income.

Medium Corporate Customers („MidCo”): The Group and the Bank include in this category mainly the companies with an annual turnover between 9 and 100 million RON. By setting such value thresholds in the classification of MidCo clients, the Bank is able to address the most frequent requests coming from this category of clients: tailored financing solutions, access to a wide range of banking services, pricing based on financial performance, dedicated and flexible relationship management, operational agility. Depending on the activity type, the customized approach related to customers is supported by two existent specializations, notably Agribusiness and Healthcare.

The MidCo segment includes also entities operating in the public sector, financial institutions or legal entities serving particular functions, included in this category based on specific classification criteria. The Bank offers a full array of financial services to its Mid Corporate clients, including lending facilities, current operations, treasury services, but also additional services such as bonus packages for employees, structured finance, co-financing of EU funded projects; the bank also facilitates the access to the services provided by the Group subsidiaries, such as bancassurance, consultancy on mergers and acquisitions, asset management, financial and operating lease, with the purpose to increase its profitability and non-risk income.

SME clients - companies with an annual turnover between 2 and 9 million RON. These are companies that have undergone the incipient growth stages and whose business activity requires further attention. Consequently, the needs of such companies become more specific, with priority for financing.

6. Segment reporting *(continued)*

Micro Business clients – company customers with an annual turnover up to 2 million RON. This category comprises the largest number of companies and the most diverse types of entities, such as limited liability companies, freelancers, sole proprietorships, etc.

The business lifespan (many such clients are fresh companies), the entrepreneur's expertise and the market on which the company operates generate certain needs that the Group and the Bank attempt to serve through product and service packages dedicated to this category of customers, which have become a hallmark in the banking sector over the years.

Lending products are accessed more frequently as the Micro or SME business takes shape: loans for working capital or investments, letters of guarantee, EU project co-financing, credit cards, leasing, invoice discounting or factoring.

Another important category of products refers to general operations, incoming and outgoing payments, cheques, promissory notes, FX operations, salary payment agreements or bancassurance services. Increased attention is given to the digitalization of our products and services, our clients showing more and more interest in internet & mobile banking, e-commerce, last generation POSs and the integration of financial data in the proprietary accounting systems.

Retail customers The Group and the Bank provide individuals with a wide range of banking products and services, including loans (consumer loans, car purchase loans, personal need loans and mortgage loans), savings and deposit accounts, payment services and securities trading.

Treasury: The Group and the Bank comprise in this category the treasury services.

Leasing and consumer finance granted by non-banking financial institutions: the Group includes in this category financial products and services such as lease facilities, consumer loans and microfinance provided by the non-banking financial institutions of the Group.

Other: The Group and the Bank incorporate in this category the services offered by other financial entities within the Group: asset management, brokerage, factoring and real estate.

In terms of geographical distribution, the Group and the Bank cover mainly the Romanian territory, except for the Italy branch operations linked to the Bank and BT Leasing Moldova financial lease operations linked to the Group; the impact of the two entities on the balance sheet and income statement is minor. There is no further information regarding the geographical distribution used by the management of the Group and the Bank; therefore it is not presented here.

As at 31 December 2018 and 31 December, 2017 , the Bank or the Group did not record income exceeding 10% of total incomes in relation to a single customer.

Notes to the separate and consolidated financial statements

6. Segment reporting *(continued)*

The table below presents financial information per segments regarding the consolidated statement of financial position and the operating profit before net expenses with the impairment allowance for loans and advances to customers, for the financial year ended at 31 December 2018, and comparative data for 2017:

Reporting segments as at 31 December 2018

In RON thousand **Group, as at 31 December 2018**	**Large Corporate**	**Mid Corporate**	**SME**	**Micro**	**Retail**	**Treasury**	**Leasing and consumer loans granted by non-banking financial institutions**	**Other - Group**	**Removals & adjustments**	**Total**
Gross loans	*6,911,155*	*6,006,138*	*2,148,978*	*3,093,737*	*21,407,190*	-	*1,844,100*	*12,823*	*(933,729)*	*40,490,392*
Provisions for principal	*(783,065)*	*(549,445)*	*(118,549)*	*(192,892)*	*(860,463)*	-	*(186,466)*	*(460)*	*18,032*	*(2,673,308)*
Loans net of provisions	6,128,090	5,456,693	2,030,429	2,900,845	20,546,727	-	1,657,634	12,363	(915,697)	37,817,084
Portfolio of Debt instruments and Equity instruments, net of provisions	-	-	-	-	-	23,126,543	-	229,699	(229,462)	23,126,780
Treasury and inter-bank operations	-	-	-	-	-	14,914,717	70,880	155,875	(169,214	14,972,258
Intangible assets	80,349	95,451	79,729	107,648	392,893	29,651	7,221	88,799	(324)	881,417
Other assets	311,729	167,280	55,766	69,765	423,643	-	41,401	619,086	(589,455)	1,099,215
Total assets	**6,520,168**	**5,719,424**	**2,165,924**	**3,078,258**	**21,363,263**	**38,070,911**	**1,777,136**	**1,105,822**	**(1,904,152)**	**77,896,754**
Deposits from customers and current accounts	5,306,139	5,512,831	3,046,256	8,109,460	43,341,868	216,320	1,453	2,314	(180,827)	65,355,814
Loans from banks and other financial institutions	72,340	439,890	186,365	202,062	46,431	246,598	1,397,568	42,822	(930,525)	1,703,551
Subordinated liabilities	-	-	-	-	-	1,651,518	-	-	3,859	1,655,377
Other liabilities	230,156	193,019	52,365	69,301	605,295	2,524	46,548	114,180	(11,449)	1,301,939
Total liabilities	**5,608,635**	**6,145,740**	**3,284,986**	**8,380,823**	**43,993,594**	**2,116,960**	**1,445,569**	**159,316**	**(1,118,942)**	**70,016,681**
Equity and related items	-	-	-	-	-	-	-	7,880,073	-	7,880,073
Total liabilities and equity	**5,608,635**	**6,145,740**	**3,284,986**	**8,380,823**	**43,993,594**	**2,116,960**	**1,445,569**	**8,039,389**	**(1,118,942)**	**77,896,754**

Notes to the separate and consolidated financial statements

6. Segment reporting (continued)

Reporting segments as at 31 December 2017

In RON thousand	Large Corporate	Mid Corporate	SME	Micro	Retail	Treasury	Leasing and consumer loans granted by non-banking financial institutions	Other - Group	Removals & adjustments	Total
Group, as at 31 December 2017										
Gross loans	*5,115,662*	*5,441,688*	*1,503,147*	*2,719,055*	*16,689,357*	-	*1,173,391*	*12,435*	*(758,008)*	*31,896,727*
Provisions for principal	*(533,872)*	*(456,982)*	*(53,036)*	*(116,776)*	*(570,950)*	-	*(99,348)*	*(59)*	*6,512*	*(1,824,511)*
Loans net of provisions	4,581,790	4,984,706	1,450,111	2,602,279	16,118,407	-	1,074,043	12,376	(751,496)	30,072,216
Portfolio of Debt instruments and Equity instruments, net of provisions	-	-	-	-	-	16,338,539	-	225,698	(245,295)	16,318,942
Treasury and inter-bank operations	-	-	-	-	-	11,717,192	46,614	169,720	(170,519)	11,763,007
Intangible assets	58,228	76,951	33,802	65,303	277,836	20,526	4,513	234,317	(1,779)	769,697
Other assets	163,490	246,248	66,994	77,354	421,555	-	19,212	72,368	(186,114)	881,107
Total assets	**4,803,508**	**5,307,905**	**1,550,907**	**2,744,936**	**16,817,798**	**28,076,257**	**1,144,382**	**714,479**	**(1,355,203)**	**59,804,969**
Deposits from customers and current accounts	5,061,815	5,950,095	1,473,137	6,212,790	30,401,364	127,946	-	2,610	(169,616)	49,060,141
Loans from banks and other financial institutions	94,929	240,419	197,511	304,212	4,385	258,435	931,118	208,369	(752,356)	1,487,022
Subordinated liabilities	-	-	-	-	-	414,578	-	-	-	414,578
Other liabilities	214,861	232,008	64,198	113,884	965,435	-	38,463	86,522	(12,255)	1,703,116
Total liabilities	**5,371,605**	**6,422,522**	**1,734,846**	**6,630,886**	**31,371,184**	**800,959**	**969,581**	**297,501**	**(934,227)**	**52,664,857**
Equity and related items	-	-	-	-	-	-	-	7,140,112	-	7,140,112
Total liabilities and equity	**5,371,605**	**6,422,522**	**1,734,846**	**6,630,886**	**31,371,184**	**800,959**	**969,581**	**7,437,613**	**(934,227)**	**59,804,969**

Notes to the separate and consolidated financial statements

6. Segment reporting (continued)

Reporting segments as at 31 December 2018

In RON thousand	Large Corporate	Mid Corporate	SME	Micro	Retail	Treasury	Leasing and consumer loans granted by non-banking financial institutions	Other - Group	Removals & adjustments	Total
Group, as at 31 December 2018										
Net interest income	137,724	238,127	112,777	289,573	1,018,184	268,465	191,749	493,377	(427)	**2,749,549**
Net commission income	56,038	106,380	76,135	249,467	242,403	(1,727)	9,371	52,480	(12,839)	**777,708**
Net trading income	6,844	29,664	23,275	52,645	89,516	80,175	(129)	(32,302)	2,475	**252,163**
Net loss (-) / gain from financial assets measured through comprehensive income	-	-	-	-	-	(3,959)	(13)	(4,287)	704	**(7,555)**
Net loss / gain (-) from financial assets which are required to be measured through profit and loss	-	-	-	-	-	(40,256)	-	(1,344)	39,030	**(2,570)**
Contribution to the Bank Deposit Guarantee Fund and to the Resolution Fund	(4,481)	(4,349)	(1,146)	(4,703)	(26,744)	-	-	-	-	**(41,423)**
Other operating income	41,695	39,233	24,986	29,432	98,001	1,640	13,608	114,175	(145,179)	**217,591**
Total income	**237,820**	**409,055**	**236,027**	**616,414**	**1,421,360**	**304,338**	**214,586**	**622,099**	**(116,236)**	**3,945,463**
Personnel expenses	(112,231)	(131,304)	(93,253)	(136,064)	(512,256)	(11,698)	(40,315)	(28,066)	25	**(1,065,162)**
Other operating expenses	(68,143)	(75,083)	(64,423)	(81,795)	(382,763)	(13,571)	(41,628)	(96,760)	17,551	**(806,615)**
Depreciation and amortization	(13,199)	(16,540)	(11,542)	(17,081)	(72,117)	(4,510)	(2,800)	(24,725)	-	**(162,514)**
Total Expenses	**(193,573)**	**(222,927)**	**(169,218)**	**(234,940)**	**(967,136)**	**(29,779)**	**(84,743)**	**(149,551)**	**17,576**	**(2,034,291)**
Operating profit before net provision expenses for assets, other risks and commitments	**44,247**	**186,128**	**66,809**	**381,474**	**454,224**	**274,559**	**129,843**	**472,548**	**(98,660)**	**1,911,172**

Notes to the separate and consolidated financial statements

6. Segment reporting (continued)

Reporting segments as at 31 December 2017

In RON thousand	Large Corporate	Mid Corporate	SME	Micro	Retail	Treasury	Leasing and consumer loans granted by non-banking financial institutions	Other - Group	Removals & adjustments	Total
Group, as at 31 December 2017										
Net interest income	110,977	214,772	86,067	186,527	723,149	161,142	81,221	325,585	1,379	1,890,819
Net commission income	47,587	89,073	50,594	199,692	169,161	(1,441)	3,497	47,501	(5,151)	600,513
Net trading income	4,864	23,971	20,826	41,905	73,767	58,334	291	54,672	(291)	278,339
Net loss / gain (-) from financial assets available-for-sale	-	-	-	-	-	(2,092)	-	(954)	(160)	(3,206)
Contribution to the Bank Deposit Guarantee Fund and to the Resolution Fund	(5,438)	(5,617)	(1,594)	(5,752)	(31,295)	-	-	-	-	(49,696)
Other operating income	17,772	17,382	9,717	9,465	54,791	264	9,483	107,116	(52,167)	173,823
Total income	**175,762**	**339,581**	**165,610**	**431,837**	**989,573**	**216,207**	**94,492**	**533,920**	**(56,390)**	**2,890,592**
Personnel expenses	(82,230)	(110,342)	(59,484)	(115,066)	(337,537)	(6,241)	(25,664)	(26,663)	-	(763,227)
Other operating expenses	(37,799)	(53,842)	(38,063)	(63,807)	(251,823)	(6,984)	(16,060)	(77,318)	15,198	(530,498)
Depreciation and amortization	(10,500)	(13,172)	(5,751)	(11,214)	(46,029)	(3,368)	(1,317)	(33,673)	-	(125,024)
Total Expenses	**(130,529)**	**(177,356)**	**(103,298)**	**(190,087)**	**(635,389)**	**(16,593)**	**(43,041)**	**(137,654)**	**15,198**	**(1,418,749)**
Operating profit before net provision expenses for assets, other risks and commitments	**45,233**	**162,225**	**62,312**	**241,750**	**354,184**	**199,614**	**51,451**	**396,266**	**(41,192)**	**1,471,843**

Notes to the separate and consolidated financial statements

7. Financial assets and liabilities

a) Accounting classifications and fair value

Group, as at 31 December 2018	Total carrying amount 2018	Total fair value 2018	Total carrying amount retail customers	Total fair value retail customers	Retail in RON Carrying amount	Retail in RON Fair value	Retail in FCY Carrying amount	Retail in FCY Fair value	Total carrying amount companies	Total fair value companies	Companies in RON Carrying amount	Companies in RON Fair value	Companies in FCY Carrying amount	Companies in FCY Fair value
Financial assets														
Financial assets held for trading and measured at fair value through profit or loss (*)	210,461	210,461	-	-	-	-	-	-	210,461	210,461	210,061	210,061	400	400
Financial assets which are required to be measured at fair value through profit or loss, of which:	456,127	456,127	-	-	-	-	-	-	456,127	456,127	232,709	232,709	223,418	223,418
- Equity instruments	155,261	155,261	-	-	-	-	-	-	155,261	155,261	414	414	154,847	154,847
- Debt instruments	300,866	300,866	-	-	-	-	-	-	300,866	300,866	232,295	232,295	68,571	68,571
Financial assets carried at amortized cost	54,714,997	51,788,192	21,134,593	18,931,422	15,759,153	14,653,457	5,375,440	4,277,965	33,580,404	32,856,770	18,480,926	17,978,883	15,099,478	14,877,887
Financial assets measured at fair value through other items of comprehensive income (2017: available-for-sale assets)	21,374,708	21,374,708	-	-	-	-	-	-	21,374,708	21,374,708	9,629,046	9,629,046	11,745,662	11,745,662
- Equity instruments	17,372	17,372	-	-	-	-	-	-	17,372	17,372	14,697	14,697	2,675	2,675
- Debt instruments	21,357,336	21,357,336	-	-	-	-	-	-	21,357,336	21,357,336	9,614,349	9,614,349	11,742,987	11,742,987
Total financial assets	**76,756,293**	**73,829,488**	**21,134,593**	**18,931,422**	**15,759,153**	**14,653,457**	**5,375,440**	**4,277,965**	**55,621,700**	**54,898,066**	**28,552,742**	**28,050,699**	**27,068,958**	**26,847,367**
Financial liabilities														
Held-for-trading financial liabilities	4,226	4,226	-	-	-	-	-	-	4,226	4,226	4,178	4,178	48	48
Financial liabilities measured at amortized cost	69,363,588	69,342,992	43,498,468	43,478,972	23,210,383	23,190,562	20,288,085	20,288,410	25,865,120	25,864,020	15,720,500	15,719,390	10,144,620	10,144,630
Total financial liabilities	**69,367,814**	**69,347,218**	**43,498,468**	**43,478,972**	**23,210,383**	**23,190,562**	**20,288,085**	**20,288,410**	**25,869,346**	**25,868,246**	**15,724,678**	**15,723,568**	**10,144,668**	**10,144,678**

(*) This category comprises only held-for-trading financial assets, including derivative instruments

Notes to the separate and consolidated financial statements

7. Financial assets and liabilities *(continued)*

a) Accounting classifications and fair value (continued)

Group, as at 31 December 2017					Retail						Companies			
					in RON		in FCY				in RON		in FCY	
	Total carrying amount 2017	Total fair value 2017	Total carrying amount retail customers	Total fair value retail customers	Carrying amount	Fair value	Carrying amount	Fair value	Total carrying amount companies	Total fair value companies	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets														
Financial assets at fair value through profit or loss (*)	274,850	274,850	-	-	-	-	-	-	274,850	274,850	272,778	272,778	2,072	2,072
Financial assets carried at amortized cost	42,469,078	42,315,208	16,358,827	16,205,322	12,545,225	12,387,094	3,813,602	3,818,228	26,110,251	26,109,886	17,207,584	17,230,945	8,902,667	8,878,941
Financial assets available-for-sale	15,821,300	15,821,300	-	-	-	-	-	-	15,821,300	15,821,300	8,509,024	8,509,024	7,312,276	7,312,276
Total financial assets	**58,565,228**	**58,411,358**	**16,358,827**	**16,205,322**	**12,545,225**	**12,387,094**	**3,813,602**	**3,818,228**	**42,206,401**	**42,206,036**	**25,989,386**	**26,012,747**	**16,217,015**	**16,193,289**
Financial liabilities														
Held-for-trading financial liabilities	11,906	11,906	-	-	-	-	-	-	11,906	11,906	11,238	11,238	668	668
Financial liabilities measured at amortized cost	52,183,973	52,206,546	30,453,123	30,469,243	17,052,158	17,063,699	13,400,965	13,405,544	21,730,850	21,737,303	15,354,743	15,358,518	6,376,107	6,378,785
Total financial liabilities	**52,195,879**	**52,218,452**	**30,453,123**	**30,469,243**	**17,052,158**	**17,063,699**	**13,400,965**	**13,405,544**	**21,742,756**	**21,749,209**	**15,365,981**	**15,369,756**	**6,376,775**	**6,379,453**

(*) This category comprises only held-for-trading financial assets, including derivative instruments

Notes to the separate and consolidated financial statements

7. Financial assets and liabilities *(continued)*

a) Accounting classifications and fair value (continued)

Bank 31 December 2018	Total carrying amount 2018	Total fair value 2018	Total carrying amount retail customers	Total fair value retail customers	Retail in RON Carrying amount	Retail in RON Fair value	Retail in FCY Carrying amount	Retail in FCY Fair value	Total carrying amount companies	Total fair value companies	Companies in RON Carrying amount	Companies in RON Fair value	Companies in FCY Carrying amount	Companies in FCY Fair value
Financial assets														
Financial assets held for trading and measured at fair value through profit or loss (*)	15,648	15,648	-	-	-	-	-	-	15,648	15,648	15,226	15,226	422	422
Financial assets which are required to be measured at fair value through profit or loss, of which:	609,638	609,638	-	-	-	-	-	-	609,638	609,638	445,317	445,317	164,321	164,321
- Equity instruments	96,422	96,422	-	-	-	-	-	-	96,422	96,422	-	-	96,422	96,422
- Debt instruments	513,216	513,216	-	-	-	-	-	-	513,216	513,216	445,317	445,317	67,899	67,899
Financial assets carried at amortized cost	50,682,025	47,821,883	20,539,562	18,401,062	15,839,312	14,733,279	4,700,250	3,667,783	30,142,463	29,420,821	17,944,446	17,452,905	12,198,017	11,967,916
Financial assets measured at fair value through other items of comprehensive income	21,363,908	21,363,908	-	-	-	-	-	-	21,363,908	21,363,908	9,620,600	9,620,600	11,743,308	11,743,308
- Equity instruments	12,405	12,405	-	-	-	-	-	-	12,405	12,405	10,504	10,504	1,901	1,901
- Debt instruments	21,351,503	21,351,503							21,351,503	21,351,503	9,610,096	9,610,096	11,741,407	11,741,407
Total financial assets	**72,671,219**	**69,811,077**	**20,539,562**	**18,401,062**	**15,839,312**	**14,733,279**	**4,700,250**	**3,667,783**	**52,131,657**	**51,410,015**	**28,025,589**	**27,534,048**	**24,106,068**	**23,875,967**
Financial liabilities														
Held-for-trading financial liabilities	4,226	4,226	-	-	-	-	-	-	4,226	4,226	4,178	4,178	48	48
Financial liabilities measured at amortized cost	66,099,992	66,079,396	41,761,614	41,742,118	23,145,975	23,126,154	18,615,639	18,615,964	24,338,378	24,337,278	15,613,769	15,612,659	8,724,609	8,724,619
Total financial liabilities	**66,104,218**	**66,083,622**	**41,761,614**	**41,742,118**	**23,145,975**	**23,126,154**	**18,615,639**	**18,615,964**	**24,342,604**	**24,341,504**	**15,617,947**	**15,616,837**	**8,724,657**	**8,724,667**

Notes to the separate and consolidated financial statements

7. Financial assets and liabilities *(continued)*

a) Accounting classifications and fair value (continued)

Bank 31 December 2017	Total carrying amount 2017	Total fair value 2017	Total carrying amount retail customers	Total fair value retail customers	Retail in RON Carrying amount	Retail in RON Fair value	Retail in FCY Carrying amount	Retail in FCY Fair value	Total carrying amount companies	Total fair value companies	Companies in RON Carrying amount	Companies in RON Fair value	Companies in FCY Carrying amount	Companies in FCY Fair value
Financial assets														
Financial assets at fair value through profit or loss (*)	83,135	83,135	-	-	-	-	-	-	83,135	83,135	81,540	81,540	1,595	1,595
Financial assets carried at amortized cost	42,065,936	41,941,908	16,127,888	16,007,340	12,390,302	12,267,518	3,737,586	3,739,822	25,938,048	25,934,568	17,008,199	17,027,447	8,929,849	8,907,121
Financial assets available-for-sale	16,032,612	16,032,612	-	-	-	-	-	-	16,032,612	16,032,612	8,709,366	8,709,366	7,323,246	7,323,246
Total financial assets	**58,181,683**	**58,057,655**	**16,127,888**	**16,007,340**	**12,390,302**	**12,267,518**	**3,737,586**	**3,739,822**	**42,053,795**	**42,050,315**	**25,799,105**	**25,818,353**	**16,254,690**	**16,231,962**
Financial liabilities														
Held-for-trading financial liabilities	11,906	11,906	-	-	-	-	-	-	11,906	11,906	11,238	11,238	668	668
Financial liabilities measured at amortized cost	51,884,703	51,907,276	30,444,753	30,460,873	17,044,290	17,055,831	13,400,463	13,405,042	21,439,950	21,446,403	15,212,547	15,218,984	6,227,403	6,227,419
Total financial liabilities	**51,896,609**	**51,919,182**	**30,444,753**	**30,460,873**	**17,044,290**	**17,055,831**	**13,400,463**	**13,405,042**	**21,451,856**	**21,458,309**	**15,223,785**	**15,230,222**	**6,228,071**	**6,228,087**

(*) This category comprises only held-for-trading financial assets, including derivative instruments

7. Financial assets and liabilities *(continued)*

b) Fair value of financial assets and liabilities

The Group and the Bank measure the fair value of financial instruments by using the following fair value hierarchy:

Level 1 in the fair value hierarchy
The fair value of financial assets and liabilities included in Level 1 in the fair value hierarchy is determined based on quoted prices in active markets for identical assets or liabilities. Quoted prices that are being applied must be readily and regularly available from an exchange or active index/market location and prices must represent actual and regularly occurring market transactions on an arm's length basis.

Level 2 in the fair value hierarchy
The fair value of financial assets and liabilities included in Level 2 in the fair value hierarchy is determined by using evaluation methods which contain observable market data when market prices are not available. Level 2 evaluations generally use observable market parameters, such as interest rates and yield curves observable at commonly quoted intervals, preset volatilities and credit spreads.

Level 3 in the fair value hierarchy
The fair value of financial assets and liabilities included in Level 3 in the fair value hierarchy is determined by using input data that are not based on observable market information (unobservable data inputs shall reflect the assumptions made by the market participants to establish the price of an asset or a liability, including risk assumptions).
The objective of valuation techniques is to derive the fair value that reflects a price for the financial instrument at the reporting date, price that would be obtained by the market participants acting at arm's length.

The availability of observable market data and models reduces the need for the Management to operate judgements and estimations and also reduces the uncertainty associated with the determination of the fair value. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The management uses its judgment to select the valuation method and makes assumptions that are mainly based on market conditions existing at the date of the consolidated/ separate statement of the financial position.

i) Fair value hierarchy analysis of financial instruments carried at fair value

At level 1 in the fair value hierarchy, the Bank and the Group included in the category of assets: equity instruments and debt instruments held at fair value through profit or loss, bonds classified as assets measured at fair value through other items of comprehensive income (before 1 January 2018 classified as available-for-sale assets), except for the bonds issued by Municipalities.

At level 2 in the fair value hierarchy, the Bank and the Group included in the category of assets: derivatives held at fair value through profit or loss, bonds classified as assets measured at fair value through other items of comprehensive income (before 1 January 2018 classified as available-for-sale assets), issued by Municipalities; and in the category of liabilities: derivatives classified as financial liabilities held for trading.

7. Financial assets and liabilities *(continued)*

b) Fair value of financial assets and liabilities (continued)

i) Fair value hierarchy analysis of financial instruments carried at fair value *(continued)*

At level 3 in the fair value hierarchy, the Bank and the Group included in the category of assets: equity instruments valued at cost, fixed assets and investment property.

The table below presents the financial instruments measured at fair value in the statement of financial position, at the end of the reporting period, by fair value levels:

Group - *In RON thousand*	Notes	Level 1 - Quoted market prices in active markets	Level 2 - Valuation techniques – observable inputs	Level 3 - Valuation techniques – unobservable inputs	**Total**
31 December 2018					
Financial assets held for trading and measured at fair value through profit or loss, of which:	***20***	**210,461**	**-**	**-**	**210,461**
- Equity instruments	*20*	112,481	-	-	**112,481**
- Debt instruments	*20*	97,980	-	-	**97,980**
Derivatives	*47*	**-**	**3,066**	**-**	**3,066**
Financial assets measured at fair value through other items of comprehensive income	***23***	**21,356,323**	**1,013**	**17,372**	**21,374,708**
- Equity instruments		-	-	17,372	**17,372**
- Debt instruments		21,356,323	1,013	-	**21,357,336**
Financial assets which are required to be measured at fair value through profit or loss, of which:		**456,127**	**-**	**-**	**456,127**
- Equity instruments		155,261	**-**	**-**	**155,261**
- Debt instruments		300,866	**-**	**-**	**300,866**
Total financial assets measured at fair value in the statement of financial position		**22,022,911**	**4,079**	**17,372**	**22,044,362**
Non-financial assets at fair value		-	-	593,903	**593,903**
- Property and equipment and investment property	***25***	-	-	593,903	**593,903**
Total assets measured at fair value in the statement of financial position		**22,022,911**	**4,079**	**611,275**	**22,638,265**
Held-for-trading financial liabilities	*47*	**-**	**4,226**	**-**	**4,226**
31 December 2017					
Financial assets at fair value through profit or loss	***20***	**264,996**	**-**	**-**	**264,996**
- Equity instruments	*20*	213,838	-	-	213,838
- Debt instruments	*20*	51,158	-	-	51,158
Derivatives	*47*	**-**	**9,854**	**-**	**9,854**
Financial assets available-for-sale	***23***	**15,757,123**	**60,652**	**3,525**	**15,821,300**
Total financial assets measured at fair value in the statement of financial position		**16,022,119**	**70,506**	**3,525**	**16,096,150**
Non-financial assets at fair value					
- Property and equipment and investment property	***25***	-	-	633,668	**633,668**
Total assets measured at fair value in the statement of financial position		**16,022,119**	**70,506**	**637,193**	**16,729,818**
Held-for-trading financial liabilities	*47*	**-**	**11,906**	**-**	**11,906**

7. Financial assets and liabilities *(continued)*

b) Fair value of financial assets and liabilities (continued)

i) Fair value hierarchy analysis of financial instruments carried at fair value *(continued)*

Bank - *In RON thousand*	Notes	Level 1 - Quoted market prices in active markets	Level 2 - Valuation techniques – observable inputs	Level 3 - Valuation techniques – unobservable inputs	**Total**
31 December 2018					
Financial assets held for trading and measured at fair value through profit or loss, of which:	**20**	**12,582**	**-**	**-**	**12,582**
- Equity instruments	*20*	*12,582*	-	-	**12,582**
Derivatives	**47**	-	**3,066**	-	**3,066**
Financial assets measured at fair value through other items of comprehensive income	**23**	**21,350,490**	**1,013**	**12,405**	**21,363,908**
- Equity instruments		-	-	*12,405*	**12,405**
- Debt instruments		*21,350,490*	*1,013*	-	**21,351,503**
Financial assets which are required to be measured at fair value through profit or loss, of which:		**609,638**	**-**	**-**	**609,638**
- Equity instruments		*96,422*	-	-	*96,422*
- Debt instruments		*513,216*	-	-	*513,216*
Total financial assets measured at fair value in the statement of financial position		**21,972,710**	**4,079**	**12,405**	**21,989,194**
Non-financial assets at fair value		**-**	**-**	**482,321**	**482,321**
- Property and equipment and investment property	**25**	-	-	*482,321*	**482,321**
Total assets measured at fair value in the statement of financial position		**21,972,710**	**4,079**	**494,726**	**22,471,515**
Held-for-trading financial liabilities	**47**	**-**	**4,226**	**-**	**4,226**
31 December 2017					
Financial assets at fair value through profit or loss, of which:	**20**	**73,281**	**-**	**-**	**73,281**
- Equity instruments	*20*	*73,281*	-	-	*73,281*
Derivatives	**47**	-	9,854	-	9,854
Financial assets available-for-sale	**23**	**15,968,868**	**60,652**	**3,092**	**16,032,612**
Total financial assets measured at fair value in the statement of financial position		**16,042,149**	**70,506**	**3,092**	**16,115,747**
Non-financial assets at fair value					
- Property and equipment and investment property	**25**	-	-	407,649	407,649
Total assets measured at fair value in the statement of financial position		**16,042,149**	**70,506**	**410,741**	**16,523,396**
Held-for-trading financial liabilities	**47**	**-**	**11,906**	**-**	**11,906**

Notes to the separate and consolidated financial statements

7. Financial assets and liabilities *(continued)*

b) Fair value of financial assets and liabilities (continued)

ii) Financial instruments not carried at fair value

At level 2 in the fair value hierarchy, the Bank and the Group included in the category of assets that are not held at fair value: placements with banks, except securities classified as loans and receivables (which do not have an active market), loans and advances and finance lease receivables; and in the category of liabilities: deposits from banks and from customers.

At level 3 in the fair value hierarchy, the Bank and the Group included in the category of assets: financial assets measured at amortized cost - debt instruments and other financial assets; and in the category of liabilities: loans from banks and other financial institutions, subordinated loans and other financial liabilities.

The table below presents the fair value and the fair value hierarchy for the financial assets and liabilities that are not measured at fair value in the statement of financial position at 31 December 2018:

		Group					**Bank**				
RON thousand	**Note:**	**Carrying amount**	**Fair value**	**Fair value hierarchy**			**Carrying amount**	**Fair value**	**Fair value hierarchy**		
				Level 1	**Level 2**	**Level 3**			**Level 1**	**Level 2**	**Level 3**
Assets											
Placements with banks	19	4,650,137	4,650,137	-	4,650,137	-	4,000,416	4,000,416	-	4,000,416	-
Loans and advances to customers	21	36,796,502	33,871,733	-	33,871,733	-	36,355,974	33,495,832		33,495,832	-
Finance lease receivables	22	1,020,582	1,018,546	-	1,018,546	-	-	-	-	-	-
Financial assets at amortized cost - debt instruments		1,082,418	1,082,418	-	-	1,082,418	431,099	431,099	-	-	431,099
Other financial assets	28	843,237	843,237	-	-	843,237	811,065	811,065	-	-	811,065
Total assets		**44,392,876**	**41,466,071**	**-**	**39,540,416**	**1,925,655**	**41,598,554**	**38,738,412**	**-**	**37,496,248**	**1,242,164**
Liabilities											
Deposits from banks	30	195,348	195,348	-	195,348	-	207,608	207,608	-	207,608	-
Deposits from customers	31	65,160,466	65,139,870	-	65,139,870	-	62,522,369	62,501,773	-	62,501,773	-
Loans from banks and other financial institutions	32	1,703,551	1,703,551	-	-	1,703,551	1,185,556	1,185,556	-	-	1,185,556
Subordinated liabilities	33	1,655,377	1,655,377	-	-	1,655,377	1,651,518	1,651,518	-	-	1,651,518
Other financial liabilities	35	648,846	648,846	-	-	648,846	532,941	532,941	-	-	532,941
Total liabilities		**69,363,588**	**69,342,992**	**-**	**65,335,218**	**4,007,774**	**66,099,992**	**66,079,396**	**-**	**62,709,381**	**3,370,015**

Notes to the separate and consolidated financial statements

7. Financial assets and liabilities *(continued)*

b) Fair value of financial assets and liabilities (continued)

ii) Financial instruments not carried at fair value (continued)

The table below presents the fair value and the fair value hierarchy for the financial assets and liabilities that are not measured at fair value in the statement of financial position at 31 December 2017:

		Group					**Bank**				
RON thousand	**Note:**	**Carrying amount**	**Fair value**	**Fair value hierarchy**			**Carrying amount**	**Fair value**	**Fair value hierarchy**		
				Level 1	**Level 2**	**Level 3**			**Level 1**	**Level 2**	**Level 3**
ASSETS											
Placements with banks	19	5,125,282	5,125,282	-	5,125,282	-	5,079,500	5,079,500	-	5,079,500	-
Loans and advances to customers	21	29,286,886	29,304,298	-	29,304,298	-	29,737,293	29,790,011		29,790,011	-
Finance lease receivables	22	785,330	790,993	-	790,993	-	-	-	-	-	-
Financial assets at amortized cost - debt instruments		222,792	222,792	-	-	222,792	222,792	222,792	-	-	222,792
Other financial assets	28	411,063	411,063	-	-	411,063	388,659	388,659	-	-	388,659
TOTAL ASSETS		**35,831,353**	**35,854,428**	**-**	**35,220,573**	**633,855**	**35,428,244**	**35,480,962**	**-**	**34,869,511**	**611,451**
LIABILITIES											
Deposits from banks	30	127,946	127,946	-	127,946	-	127,946	127,946	-	127,946	-
Deposits from customers	31	48,932,195	48,954,768	-	48,954,768	-	49,099,201	49,121,774	-	49,121,774	-
Loans from banks and other financial institutions	32	1,487,022	1,487,022	-	-	1,487,022	1,099,891	1,099,891	-	-	1,099,891
Subordinated liabilities	33	414,578	414,578	-	-	414,578	414,578	414,578	-	-	414,578
Other financial liabilities	35	1,222,232	1,222,232	-	-	1,222,232	1,143,087	1,143,087	-	-	1,143,087
TOTAL LIABILITIES		**52,183,973**	**52,206,546**	**-**	**49,082,714**	**3,123,832**	**51,884,703**	**51,907,276**	**-**	**49,249,720**	**2,657,556**

8. Net interest income

In RON thousand	Group 2018	Group 2017	Bank 2018	Bank 2017
Interest income				
Loans and advances to customers *(i)*	2,500,573	1,623,117	2,376,502	1,604,181
Current accounts held with banks	25,094	1,838	7,440	1,835
Financial assets available-for-sale (note 23)	-	252,503	-	251,719
Financial assets measured at fair value through other items of comprehensive income	397,276	-	397,109	-
Financial assets at amortized cost - debt instruments	57,167	11,381	11,875	11,220
Placements with banks	34,353	19,155	33,951	18,702
Finance lease receivables	87,062	62,493	-	-
Increase of the recoverable value of the acquired loans, finance lease and inter-bank accounts	68,226	114,455	15,894	113,235
Interest income - other financial assets	12,298	17,679	12,299	17,679
Total interest income	***3,182,049***	***2,102,621***	***2,855,070***	***2,018,571***
Interest expense				
Deposits from customers	319,508	164,821	279,334	165,249
Loans from banks and other financial institutions	86,878	39,258	72,760	37,164
Deposits from banks	26,105	7,709	25,066	7,709
Finance lease receivables	9	14	2	-
Total interest expense	***432,500***	***211,802***	***377,162***	***210,122***
Net interest income	**2,749,549**	**1,890,819**	**2,477,908**	**1,808,449**

(i) Interest income for the year ended at 31 December 2018 includes the net interest income on impaired financial assets amounting RON 184,523 thousand (2017: RON 159,245 thousand) for the Group and RON 157,364 thousand (2017: RON 145,477 thousand) for the Bank.

The interest income and expense related to the financial assets and liabilities, other than those held at fair value through profit and loss, are determined using the effective interest rate method.

9. Net fee and commission income

In RON thousand	Group 2018	Group 2017	Bank 2018	Bank 2017
Fee and commission income				
Commissions from treasury and inter-bank operations	80,868	53,196	80,868	53,196
Client transactions	877,848	646,583	774,004	607,189
Lending activity *(i)*	49,856	44,036	50,310	44,063
Finance lease management	1,193	376	-	-
Other fee and commission income	20,176	122	18,766	123
Total fee and commission income	***1,029,941***	***744,313***	***923,948***	***704,571***
Fee and commission expense				
Commissions from treasury and inter-bank operations	151,411	98,098	151,288	97,889
Client transactions	79,058	31,711	47,721	29,197
Lending activity *(i)*	20,231	12,787	28,541	21,377
Other fees and commissions	1,533	1,204	1,726	1,442
Total fee and commission expense	**252,233**	**143,800**	**229,276**	**149,905**
Net fee and commission income	**777,708**	**600,513**	**694,672**	**554,666**

9. Net fee and commission income *(continued)*

(i) Lending-related fees include loan restructuring fees, prepayment fees, guarantee assessment and amendment fees, commitment fees, debt recovery fees.

10. Net trading income

	Group		Bank	
In RON thousand	**2018**	**2017**	**2018**	**2017**
Net income from foreign exchange transactions	260,435	196,364	240,313	196,425
Net income/(expense) from derivatives	(5,886)	20,394	(5,886)	20,394
Net income/ (expense) from financial assets held-for-trading (2017: financial assets at fair value through profit or loss)	(35,796)	75,974	(4,066)	17,554
Net income / (expense) from foreign exchange position revaluation	33,410	(14,393)	33,087	(10,706)
Net trading income	**252,163**	**278,339**	**263,448**	**223,667**

11. Net loss from the sale of financial assets measured at fair value through other items of comprehensive income (2017: Net loss from the sale of financial assets available-for-sale)

	Group		Bank	
In RON thousand	**2018**	**2017**	**2018**	**2017**
Income from the sale of financial assets available-for-sale	-	66,358	-	65,139
Income from the sale of financial assets measured at fair value through other items of comprehensive income	18,812	-	18,533	-
Loss from the sale of financial assets available-for-sale	-	(69,564)	-	(69,241)
Losses from the sale of financial assets measured at fair value through other items of comprehensive income	(26,367)	-	(26,307)	-
Net loss from the sale of financial assets measured at fair value through other items of comprehensive income (2017: from the sale of available-for-sale financial assets)	**(7,555)**	**(3,206)**	**(7,774)**	**(4,102)**

12. Net loss from financial assets which are required to be measured at fair value through profit or loss

	Group		Bank	
In RON thousand	**2018**	**2017**	**2018**	**2017**
Losses from financial assets which are required to be measured at fair value through profit or loss	(183,429)	-	(250,803)	-
Income from financial assets which are required to be measured at fair value through profit or loss	180,859	-	210,274	-
Net loss from financial assets which are required to be measured at fair value through profit or loss	**(2,570)**	**-**	**(40,529)**	**-**

13. Contribution to the Bank Deposit Guarantee Fund and to the Resolution Fund

The deposits of individuals and of certain types of legal entities, including small and medium enterprises, are secured up to a certain limit (EUR 100,000) by the Bank Deposit Guarantee Fund according to the legislation in force (Law no. 311/2015 regarding deposit guarantee schemes and the Bank Deposit Guarantee Fund and Law no. 312/2015 regarding the recovery and resolution of credit institutions and investment firms).

The banks in Romania are obliged to pay a non-refundable amount to the Deposit Guarantee Fund, in order to insure customer deposits in the event of bank insolvency and an annual contribution to the Banking Resolution Fund.

The impact of the breakdown of the annual contribution to the two funds, as reflected in the separate and consolidated statement of financial position, is the following:

	Group		Bank	
	2018	**2017**	**2018**	**2017**
Contribution to the Bank Deposit Guarantee Fund	25,589	9,814	23,330	9,814
Bank Resolution Fund	15,834	39,882	15,834	39,882
Total	**41,423**	**49,696**	**39,164**	**49,696**

Starting from 2015, the Group has applied the IFRIC 21 provisions on ”Taxes”, according to which the contribution to the Fund represents a tax that has to be fully registered upon the occurrence of the event causing the obligation of tax payment.

14. Other operating income

	Group		Bank	
In RON thousand	**2018**	**2017**	**2018**	**2017**
Dividend income	3,611	3,857	135,407	41,878
Income from e-commerce transactions	6,791	3,562	6,791	3,562
Income from operational lease	31,860	51,190	-	-
Income from insurance intermediation	56,554	38,675	50,413	34,881
Income from the sale of finished products	25,431	24,454	-	-
Income from the sale of available-for-sale assets	-	7,032	-	5,706
Income from VISA, MASTERCARD, WU services	15,282	5,881	15,282	5,881
Income from the assignment of shareholdings	22,723	-	-	-
Other operating income *(i)*	55,339	39,172	37,526	24,288
Total	**217,591**	**173,823**	**245,419**	**116,196**

(i) The category “Other operating income” includes the following types of income: debt recoveries related to closed accounts, cash at hand differences, income from recovered legal expenses, marketing bonuses, other recoveries from operating expenses.

15. Net expense (-) / income from impairment allowance, expected losses on assets, provisions for other risks and loan commitments

	Group		Bank	
In RON thousand	**2018**	**2017**	**2018**	**2017**
Net impairment allowance on assets (i)	758,439	455,788	666,847	413,062
Loans written off	8,751	4,139	741	4,109
Finance lease receivables written off	69,446	6,524	-	-
Provisions for other risks and loan commitments	9,012	(133,936)	6,700	(134,626)
Recoveries from loans written off	(443,774)	(283,971)	(443,497)	(283,898)
Recoveries from finance lease receivables written off	(37,453)	(19,323)	-	-
Net impairment allowance on financial assets, provisions for other risks and loan commitments	**364,421**	**29,221**	**230,791**	**(1,353)**

(i) Impairment losses on assets include the following:

	Group		Bank	
In RON thousand	**2018**	**2017**	**2018**	**2017**
Loans and advances to customers	733,218	399,600	678,422	380,366
Treasury and inter-bank operations	2,899	-	65	-
Finance lease receivables	32,201	24,704	-	-
Investment securities	(1,625)	-	2,861	-
Other financial assets	(13,699)	38,000	(14,257)	36,425
Other non-financial assets	9,761	(6,510)	139	(3,729)
Property and equipment and intangible assets	(4,316)	(6)	(383)	-
Net impairment allowance on assets	**758,439**	**455,788**	**666,847**	**413,062**

16. Personnel expenses

	Group		Bank	
In RON thousand	**2018**	**2017**	**2018**	**2017**
Gross salaries (starting from 2018 and including contributions)	902,693	545,117	822,627	511,678
Social protection contribution	32,932	3,733	23,603	3,733
Contribution to social security	-	86,972	-	81,092
Share payments to employees	66,909	35,681	66,653	35,681
Bonuses to employees	11,721	3,091	2,279	-
3rd Pension Pillar	6,851	6,728	6,502	6,503
Other staff expenses	44,382	35,713	41,552	33,423
Contribution to the health fund	-	32,633	-	30,672
Contribution to the unemployment fund	-	3,931	-	3,751
Net expenses with provisions for overdue vacations and other provisions	(326)	9,628	2,756	8,857
Total	**1,065,162**	**763,227**	**965,972**	**715,390**

The average number of new employees within the Group and the Bank during 2018 and 2017 was:

Category	**Monthly average number of persons employed during 2018**		**Monthly average number of persons employed during 2017**	
	Group	**Bank**	**Group**	**Bank**
Management positions	1.42	0.33	0.92	0.17
Operational positions	148.67	109.67	103.06	90.14
TOTAL	**150.09**	**110.00**	**103.98**	**90.31**

16. Personnel expenses *(continued)*

The employer's expenses related to the share-based payments are included in the wages and salaries and amounted to RON 66,653 thousand in 2018 (2017: RON 35,680 thousand), both for the Group and the Bank. In 2018, the Bank granted shares to employees.
The Bank established a Stock Option Plan, by which its employees may exercise the right and option to purchase a number of shares issued by the Bank.
Vesting conditions for 2019 related to SOP 2018:

- Achievement of performance and prudential indicators during 2018;
- Compliance with certain individual eligibility and/or performance criteria, in accordance with the applicable remuneration policy and standard, related to the year for which shares are granted;
- Being an employee upon the granting of the SOP option right (31.05.2018) and when exercising such right (starting from 31.05.2019);

Contractual vesting period for the shares granted for the year 2018 through SOP:

- Release after 31.05.2019;
- Deferral period for the identified personnel - 3-5 years, subject to applicable restrictions, pursuant to internal regulations in force.

The impact in profit or loss of a possible value change of the shares which are to be granted to the employees under the Stock Option Plan for 2018, by a maximum of +/-15.00% regulated by the Bucharest Stock Exchange, would be of RON +/- 8,656 thousand.

The movement in transactions relating to share-based payments during 2018 and 2017 is presented below:

	2018	**2017**
Balance as at January 1	**21,666**	**30,000**
Rights granted during the year	57,471	44,014
Rights exercised during the year	-	-
Expense with employee benefits in the form of share-based payments	66,653	35,680
Closing balance at the end of period	**30,848**	**21,666**

25,018,125 shares were granted to employees and shareholders in 2018; during the year 2017, a number of 17,000,000 shares was granted to the employees and shareholders:

Granting date	**Number of shares**	**Contractual vesting period**	**Vesting conditions**
Shares granted to employees for the year 2017	24,307,292	With immediate release on 31 May 2018	Achievement of performance and prudential indicators during 2017. Compliance with the conditions stipulated in the applicable remuneration policy and standard, related to the year for which shares are granted, as well as with the conditions of the trust agreement.
	710,833	Deferral by trust agreement for 3-5 years	

17. Other operating expenses

	Group		Bank	
In RON thousand	**2018**	**2017**	**2018**	**2017**
Rent and operating lease expense	147,558	91,350	139,275	96,459
Repairs and maintenance expenses	159,495	93,883	148,450	93,148
Advertising, marketing, entertainment and sponsorship expenses	74,551	59,719	69,908	56,635
Mail, telecommunication and SMS traffic expenses	43,247	26,975	38,730	25,891
Materials and stationery	84,596	74,748	60,816	55,222
Other professional fees, including legal expenses	44,148	33,444	41,775	33,098
Expenses regarding movable and immovable assets resulting from debt enforcement	4,437	2,804	4,437	3,668
Electricity and heating	22,351	17,520	17,924	14,345
Business travel, transportation and temporary relocation expenses	32,229	18,062	30,240	16,582
Insurance costs	15,142	13,159	15,202	12,430
Taxes and fees	33,775	12,801	31,373	8,040
Write-off and loss on disposal of property and equipment and intangible assets	8,584	8,447	8,642	3,209
Security and protection	13,393	8,870	11,094	8,832
Expenses related to archiving services	14,594	11,287	14,344	11,243
Indemnities, fines and penalties	14,852	1,485	14,572	757
Expenses related to database queries from the Trade Register and the Credit Bureau	4,930	3,144	4,555	3,007
Expenses with foreclosed assets	7,941	3,805	7,837	3,634
Audit, advisory and other services provided by the independent auditor	4,526	2,258	3,008	1,708
- out of which, audit fees	*2,842*	*2,041*	*1,881*	*1,548*
- out of which, other advisory and consultancy fees	*1,684*	*217*	*1,127*	*160*
Expenses from the sale of leased goods	8,549	3,456	-	-
Other operating expenses	67,717	43,281	35,169	18,629
Total other operating expenses	**806,615**	**530,498**	**697,351**	**466,537**

18. Expense tax

	Group		Bank	
In RON thousand	**2018**	**2017**	**2018**	**2017**
Gross Profit	**1,706,828**	**1,442,622**	**1,642,446**	**1,378,500**
Statutory tax rate (2018: 16%; 2017: 16%)	***(273,092)***	***(230,820)***	***(262,791)***	***(220,560)***
Fiscal effect of income tax on the following elements:	***(173,056)***	***30,666***	***(160,264)***	***28,039***
- *Non-taxable income*	*225,619*	*31,305*	*226,210*	*46,390*
- *Non-deductible expense*	*(253,449)*	*(28,533)*	*(237,345)*	*(44,921)*
- *Tax deductions*	*74,778*	*27,894*	*69,680*	*26,570*
- *Income related items*	*(212,694)*	-	*(211,499)*	-
- *Current acquisition-related income tax from prior years*	*(7,310)*	-	*(7,310)*	-
Expense tax	**(446,148)**	**(200,154)**	**(423,055)**	**(192,521)**

18. Expense tax *(continued)*

The tax impact is generated by the following elements:

- Non-taxable income include mainly the dividend income obtained from Romanian legal entities and the income resulting from non-deductible provision reversal, income from mergers and acquisitions;
- Non-deductible expenses include amounts such as provision expenses, sponsorship expenses, accounting amortization expenses and other non-deductible operating expenses provided by the law;
- Tax deductions are related to the deductions obtained from tax amortization, statutory reserve and tax credits;
- Income-related items include transactions in connection with the assignment of receivables, the impact of the expected credit loss according to IFRS 9, tax reserves and fair value adjustments from mergers and acquisitions.;
- Expense-related items including the impact of the expected credit loss according to IFRS 9, tax reserves and fair value adjustments from mergers and acquisitions.

19. Cash and cash equivalents with the National Bank

	Group		**Bank**	
In RON thousand	**2018**	**2017**	**2018**	**2017**
Minimum reserve requirement	8,068,610	5,351,174	7,091,495	5,351,174
Cash on hand and other values	2,253,511	1,286,551	1,991,976	1,286,518
Total	**10,322,121**	**6,637,725**	**9,083,471**	**6,637,692**

As at 31 December 2018, the minimum reserve requirement held with the National Bank of Romania was set at 8% for funds denominated in RON and EUR (2017: 8% for funds denominated in RON and EUR). The minimum reserve balance may fluctuate on a daily basis. The interest paid by the National Bank of Romania for the reserves held by the banks was 0.09 - 0.23% per year for the reserves in RON, 0.02% per year for reserves denominated in EUR and 0.08--0.14% per year for reserves denominated in USD. The minimum required reserve can be used by the Bank for its daily activities as long as the average monthly balance is maintained within the required limits.

Reconciliation of cash and cash equivalents with the separate and consolidated statement of financial position

		Group		**Bank**	
In RON thousand	**Note:**	**2018**	**2017**	**2018**	**2017**
Cash and cash equivalents with the National Bank (*)	19	10,320,727	6,637,664	9,084,112	6,637,632
Placements with banks - maturity below 3 months		3,775,656	4,588,582	3,148,741	4,579,940
Reverse-repo transactions		340,416	204,618	340,416	204,618
Financial assets with maturity below 3 months		719,591	-	719,591	-
Cash and cash equivalents in the cash flow statement		**15,156,390**	**11,430,864**	**13,292,860**	**11,422,190**

(*) At Group level, the cash and cash equivalents with the National Bank do not include the accrual in the amount of 1,394 RON thousand (2017: 61 RON thousand) and at the level of the Bank in the amount of (641) RON thousand (2017: 60 RON thousand)

20. Placements with banks

	Group		Bank	
In RON thousand	**2018**	**2017**	**2018**	**2017**
Current accounts with other banks	1,851,092	1,648,315	1,229,191	1,625,324
Sight and term deposits with other banks	2,302,364	3,040,837	2,274,544	3,018,046
Reverse repo transactions	340,573	204,666	340,573	204,666
Loans and advances to credit institutions	156,108	231,464	156,108	231,464
Total	**4,650,137**	**5,125,282**	**4,000,416**	**5,079,500**

As at 31 December 2018, the placements with banks included reverse-repo securities and term deposits with maturity up to 3 months, which are also included in the separate and consolidated statement of cash flows, as follows: reverse-repo in amount of RON 340,416 thousand and deposits in amount of RON 3,775,656 thousand at Group level, and reverse-repo of RON 340,416 thousand and deposits in amount of RON 3,148,741 thousand at Bank level (2017: repo in amount of RON 204,618 thousand and deposits in amount of RON 4,588,582 thousand at Group level and reverse-repo in amount of RON 204,618 thousand and deposits in amount of RON 4,579,940 thousand at Bank level).

Except for sale and reverse-repo agreements, the amounts due from other banks are not guaranteed. The quality analysis of the placements with banks as at 31 December 2018 and 31 December 2017, according to the rating agencies is detailed below:

Group	**2018**		**2017**	
In RON thousand	**Placements with banks**	**Reverse repo transactions**	**Placements with banks**	**Reverse repo transactions**
Investment grade	4,216,327	340,573	4,810,481	204,666
Non-investment grade	93,237	-	110,135	-
Total	**4,309,564**	**340,573**	**4,920,616**	**204,666**

Bank	**2018**		**2017**	
In RON thousand	**Placements with banks**	**Reverse repo transactions**	**Placements with banks**	**Reverse repo transactions**
Investment grade	3,568,486	340,573	4,766,989	204,666
Non-investment grade	91,357	-	107,845	-
Total	**3,659,843**	**340,573**	**4,874,834**	**204,666**

The qualitative analysis regarding the placements with banks was based on the credit ratings issued by Standard & Poor's, Moody's and Fitch, if available. As concerns the Group's/Bank's placements with credit institutions that are not rated by Standard & Poor's, Moody's or Fitch, the Standard & Poor's sovereign rating was used.

The Investment-grade category includes the Group's/Bank's placements with credit institutions having the following ratings: AAA, AA+, AA-, A+, A, A-, BBB+, BBB and BBB-.

The non-investment grade category includes the Group's/Bank's placements with credit institutions having the following ratings: BB+, BB, B+, B, B- and B3.

21. Financial assets at fair value through profit or loss

a) Held-for-trading financial assets measured at fair value through profit or loss

The structure of financial assets held-for-trading and measured at fair value through profit or loss is presented in the table below:

	Group		Bank	
In RON thousand	**2018**	**2017**	**2018**	**2017**
Equity instruments	112,481	213,838	12,582	73,281
Debt instruments	97,980	51,158	-	-
Total	**210,461**	**264,996**	**12,582**	**73,281**

As at 31 December 2018, the Group held shares listed on the Bucharest Stock Exchange and the main stock exchanges in Europe.
As at 31 December 2018, the Group owned significant investments amounting to RON 86,984 thousand in the following entities: SIF Moldova S.A., SIF Muntenia SA and SIF Banat Crisana S.A.. (2017: RON 160,871 thousand).

A qualitative analysis of the share portfolio of the Group and of the Bank as at 31 December 2018 and 31 December 2017 is presented below:

	Group		Bank	
In RON thousand	**2018**	**2017**	**2018**	**2017**
Investment-grade	1.084	3,260	873	1,431
Non-investment grade	5,824	21,850	320	7,600
No rating(*)	203,553	239,886	11,389	64,250
Total	**210,461**	**264,996**	**12,582**	**73,281**

(*)They mainly represent the Group's investments in fund units and Romanian financial investment companies
The analysis of the quality of the share portfolio is based on the Standard & Poor's rating, if available, or Moody's rating converted into the nearest equivalent rating according to the scale of Standard & Poor.
The Investment-grade category includes financial assets at fair value through profit or loss with the following ratings: A+, A, A- and BAA2.
The Non Investment-grade category includes financial assets at fair value through profit or loss with rating BB-.
The 'no rating' category includes financial assets at fair value through profit or loss the issuers of which are not rated.

b) Financial assets which are required to be measured at fair value through profit and loss

The structure of financial assets which are required to be measured at fair value through profit or loss is presented in the table below:

	Group		Bank	
In RON thousand	**31-12-2018**	**31-12-2017**	**31-12-2018**	**31-12-2017**
Equity instruments	155,261	-	96,422	-
Debt instruments	300,866	-	513,216	-
Total	**456,127**	**-**	**609,638**	**-**

As of 1 January 2018, the Group and the Bank included the stake in VISA Inc., the investments in fund units and investment certificates in the category of financial assets which are required to be measured at fair value through profit or loss.
Before the enforcement of IFRS 9, the VISA shares and fund units used to be classified as financial assets available for sale.

22. Loans and advances to customers

The Group's and Bank's commercial lending is concentrated on Romanian companies and individuals. The risk distribution of the credit portfolio per sectors, as at 31 December 2018 and 31 December 2017, is the following:

	Group		Bank	
In RON thousand	**2018**	**2017**	**2018**	**2017**
Retail	21,825,521	16,867,758	21,209,725	16,687,724
Trading	4,247,521	3,004,638	4,049,847	2,967,695
Manufacturing	3,869,729	3,356,325	3,786,753	3,348,839
Agriculture	1,556,437	1,462,487	1,457,691	1,459,072
Real estate	1,472,655	906,179	1,453,526	938,185
Services	1,432,118	1,225,895	1,364,544	1,208,568
Financial institutions	500,157	169,921	1,325,500	881,618
Constructions	1,228,121	1,147,886	1,193,435	1,140,623
Transportation	1,109,071	855,423	1,031,394	831,227
Self-employed	654,809	631,424	592,968	598,737
Others	607,735	701,439	543,043	676,432
Telecommunications	428,913	268,372	360,878	266,654
Energy	196,946	201,550	195,167	201,492
Mining	107,816	89,273	105,914	89,225
Chemical industry	65,618	141,210	71,618	145,724
Government institutions	64,567	9,634	58,733	9,634
Fishing	14,534	17,461	14,371	17,461
Total loans and advances to customers before impairment allowance (*)	**39,382,268**	**31,056,875**	**38,815,107**	**31,468,910**
Allowances for impairment losses on loans	(2,585,766)	(1,769,989)	(2,459,133)	(1,731,617)
Total loans and advances to customers, net of impairment allowance	**36,796,502**	**29,286,886**	**36,355,974**	**29,737,293**

(*)Total loans and advances to customers before impairment allowance are diminished by the fair value adjustments for the portfolio of loans taken over through acquisitions, determined on the basis of the purchase price allocation report.

The structure of the credit portfolio of the Bank and the Group as at 31 December 2018 and 31 December 2017 is the following:

	Group		Bank	
In RON thousand	**2018**	**2017**	**2018**	**2017**
Corporate	11,987,524	9,805,858	12,604,496	10,557,351
Small and medium enterprises	5,242,713	4,222,203	5,000,886	4,223,808
Consumer loans and card loans granted to retail customers	10,580,685	8,228,874	10,452,319	8,228,874
Mortgage loans	10,787,269	8,438,435	10,718,169	8,438,435
Loans granted by non-banking financial institutions	732,015	327,020	-	-
Other	52,062	34,485	39,237	20,442
Total loans and advances to customers before impairment allowance (*)	**39,382,268**	**31,056,875**	**38,815,107**	**31,468,910**
Allowances for impairment losses on loans	(2,585,766)	(1,769,989)	(2,459,133)	(1,731,617)
Total loans and advances to customers net of impairment allowance (*)	**36,796,502**	**29,286,886**	**36,355,974**	**29,737,293**

Notes to the separate and consolidated financial statements

22. Loans and advances to customers *(continued)*

The movement in impairment allowances on loans and advances to customers at Group level in 2018 was the following:

	Allowances for expected credit losses on loans and advances to customers with respect to which the credit risk has significantly increased since the initial recognition, but which are not impaired (Stage 1)	Allowances for expected credit losses on loans and advances to customers with respect to which the credit risk has significantly increased since the initial recognition, but which are not impaired (Stage 2)	Allowances for expected credit losses on loans and advances to customers which are impaired (Stage 3)	Total
Opening balance as at January 1, 2018	**(238,758)**	**(364,218)**	**(1,323,186)**	**(1,926,162)**
Increase due to issue or acquisition	(322,505)	(159,436)	(490,324)	(972,265)
Decrease due to derecognition	108,543	77,374	145,267	331,184
Increase or decrease due to the change in credit risk (net) and transfers	98,286	(130,340)	(172,292)	(204,346)
Increase or decrease due to changes without derecognition (net)	(100,961)	(32,746)	(38,096)	(171,803)
Decrease of impairment allowances due to write-offs	247	37,072	324,252	361,571
Other allowances	(130)	(1,034)	(2,781)	(3,945)
Closing balance as at 31 December 2018	**(455,278)**	**(573,328)**	**(1,557,160)**	**(2,585,766)**

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22. Loans and advances to customers *(continued)*

The movement in impairment allowances on loans and advances to customers at Bank level in 2018 was the following:

	Allowances for expected credit losses on loans and advances to customers with respect to which the credit risk has significantly increased since the initial recognition, but which are not impaired (Stage 1)	Allowances for expected credit losses on loans and advances to customers with respect to which the credit risk has significantly increased since the initial recognition, but which are not impaired (Stage 2)	Allowances for expected credit losses on loans and advances to customers which are impaired (Stage 3)	Total
Opening balance as at January 1, 2018	**(248,343)**	**(342,164)**	**(1,293,062)**	**(1,883,569)**
Increase due to issue or acquisition	(326,381)	(132,056)	(489,521)	(947,958)
Decrease due to derecognition	110,861	77,376	144,221	332,458
Increase or decrease due to the change in credit risk (net) and transfers	98,674	(131,442)	(156,802)	(189,570)
Increase or decrease due to changes without derecognition (net)	(93,274)	(31,295)	(3,549)	(128,118)
Decrease of impairment allowances due to write-offs	247	37,072	324,252	361,571
Other allowances	(133)	(1,187)	(2,627)	(3,947)
Closing balance as at 31 December 2018	**(458,349)**	**(523,696)**	**(1,477,088)**	**(2,459,133)**

22. Loans and advances to customers *(continued)*

In 2017, the impact of the movements in impairment allowances for loans and advances to customers, at Group and Bank level, was the following:

In RON thousand	**Group**	**Bank**
Balance as at 1 January	(2,083,448)	(2,064,138)
Net impairment charges	(399,600)	(380,366)
Effect of discounting the current value	(146,535)	(146,535)
Impairment allowances on written off loans	878,915	878,744
Net FX loss	(19,321)	(19,322)
Balance at 31 December	**(1,769,989)**	**(1,731,617)**

In 2017, the impact of the movements in impairment allowances for loans and advances to customers, individually determined at Group and Bank level, was the following:

In RON thousand	**Group**	**Bank**
Balance as at 1 January	(1,182,660)	(1,178,174)
Net impairment charges	(336,242)	(335,058)
Effect of discounting the current value	(85,226)	(85,226)
Impairment allowances on written off loans	655,011	655,011
Transfer of Impairment allowances from individual to collective	3,142	2,758
Net FX loss	(13,401)	(13,400)
Balance at 31 December	**(959,376)**	**(954,089)**

In 2017, the Group's and the Bank's movement in impairment allowances for loans and advances to customers identified for asset groups and for generated but unidentified losses was the following:

In RON thousand	**Group**	**Bank**
Balance as at 1 January	(900,788)	(885,964)
Net impairment charges	(63,358)	(45,308)
Effect of discounting the current value	(61,309)	(61,309)
Impairment allowances on written off loans	223,904	223,733
Transfer of Impairment allowances from individual to collective	(3,142)	(2,758)
Net FX loss	(5,920)	(5,922)
Balance at 31 December	**(810,613)**	**(777,528)**

23. Finance lease receivables

The Group acts as a lessor under finance lease agreements, concluded mainly for financing motor vehicles and equipment. The lease agreements are denominated in EUR, RON and MDL and typically run for a period between 2 and 5 years, with the transfer of ownership over the leased assets upon the termination of the lease agreement. Interest is charged over the period of lease, based on fixed interest rates.

The lease receivables are secured by the underlying assets and by other collateral. The breakdown of finance lease receivables according to their maturity is presented below:

In RON thousand	**2018**	**2017**
Finance lease receivables with maturity below 1 year, gross	490,862	375,286
Finance lease receivables with maturity between 1-5 years, gross	721,636	540,759
Total finance lease receivables, gross	1,212,498	916,045
Future interest related to finance lease receivables	(104,374)	(76,193)
Total finance lease receivables, net of future interest	1,108,124	839,852
Impairment allowances for finance lease receivables	(87,542)	(54,522)
Total finance lease receivables	**1,020,582**	**785,330**

The lease contracts are generated and managed through BT Leasing Transilvania IFN S.A. and BT Leasing Moldova S.R.L.

Impairment allowances for finance lease receivables are further analyzed as follows:

In RON thousand	**2018**	**2017**
Balance at the beginning of the year	(54,522)	(54,804)
Net provision charges	(32,201)	(24,704)
Provisions for finance lease receivables written off	9,867	24,986
Recognition of expected credit losses (ECL) in accordance with IFRS 9	(7,357)	-
Others (mergers and acquisitions, deconsolidation, exchange rate differences)	(3,329)	-
Balance at the end of the year	**(87,542)**	**(54,522)**

24. Investment securities

a) Financial assets measured at fair value through other items of comprehensive income (2017: Financial assets available-for-sale

	Group		Bank	
In RON thousand	**2018**	**2017**	**2018**	**2017**
Financial assets measured at fair value through other items of comprehensive income (2017: Financial assets available-for-sale				
Unlisted securities and other fixed-income instruments:	***21,357,336***	***15,442,234***	***21,351,503***	***15,428,154***
Treasury certificates and securities issued by the Romanian Government, of which:	11,829,430	9,070,223	11,825,177	9,056,143
- discount certificates	*75,678*	*419,771*	*75,678*	*419,771*
- coupon certificates (RON)	*10,873*	*11,339*	*10,873*	*11,339*
- Benchmark bonds (RON)	*9,373,910*	*7,660,338*	*9,369,657*	*7,646,258*
- Treasury certificates with coupon (EUR)	*2,368,969*	*978,775*	*2,368,969*	*978,775*
EURO bonds issued by the Romanian Government on foreign markets	7,789,133	5,153,166	7,789,133	5,153,166
USD bonds issued by the Romanian Government on foreign markets	1,419,991	1,017,599	1,419,991	1,017,599
Bonds, of which:	*318,782*	*201,246*	*317,202*	*201,246*
- issued by Bucharest Municipality	*40,211*	*60,264*	*40,211*	*60,264*
- issued by Alba Iulia Municipality	*537*	*388*	*537*	*388*
- issued by Hunedoara Municipality	*476*	-	*476*	-
issued by Black Sea (BSTDB)	*8,287*	*8,286*	*8,287*	*8,286*
- issued by the International Investment Bank	*220,127*	*105,118*	*220,127*	*105,118*
- issued by Transelectrica	-	*27,190*	-	*27,190*
- issued by the European Bank for Reconstruction and Development	20,429	-	20,429	-
- issued by Globalworth Real Estate Inv. LTD	*27,135*	-	*27,135*	-
-issued by the Ministry of Finance of Moldova	*1,580*	-	-	-
Shares	**-**	***64,023***	**-**	***63,888***
Fund units	**-**	***243,355***	**-**	***469,315***
Investment certificates	**-**	***68,163***	**-**	***68,163***
Equity instruments, of which:	***17,372***	***3,525***	***12,405***	***3,092***
Measured at fair value through other items of comprehensive income	***17,372***	**-**	***12,405***	**-**
Gross value	-	*3,533*	-	*3,092*
Impairment allowances related to equity instruments	-	(8)	-	-
Total *financial assets measured at fair value through other items of comprehensive income(2017: available-for-sale financial assets)*	**21,374,708**	**15,821,300**	**21,363,908**	**16,032,612**

Notes to the separate and consolidated financial statements

24. Investment securities *(continued)*

a) Financial assets measured at fair value through other items of comprehensive income (2017: Financial assets available-for-sale (continued)

As at 31 December 2018, for these categories of securities, the Group holds equity instruments valued at fair value through other items of comprehensive income (in 2017 they were measured at cost) under the form of participations in Transfond, Biroul de Credit, Swift Belgium, Casa Romana de Compensatii, Fondul de Compensare a Investitorilor, Depozitarul Central S.A. The investment in such equity instruments as at 31 December 2018 at Group level amounted to RON 17,372 thousand (2017: RON 3,525 thousand) and at Bank level RON 12,405 thousand (2017: RON 3,092 thousand).

Qualitative analysis of the bonds held by the Group and the Bank as at 31 December 2018, classified as "Financial assets measured at fair value through other items of comprehensive income", depending on the issuer's rating:

	Group					**Bank**				
In RON thousand	*Bonds and treasury certificates issued by the Romanian Government and the Ministry of Finance in the Republic of Moldova*	*Municipal bonds*	*Bonds issued by other financial institutions*	*Bonds issued by non-financial institutions*	**Total**	*Bonds and treasury certificates issued by the Romanian Government*	*Municipal bonds*	*Bonds issued by other financial institutions*	*Bonds issued by non-financial institutions*	**Total**
A-	-	-	8,287	-	**8,287**	-	-	8,287	-	**8,287**
AAA	-	-	20,429	-	**20,429**	-	-	20,429	-	**20,429**
B	1,580	-	-	-	**1,580**	-	-	-	-	**-**
BB+	-	537	-	-	**537**	-	537	-	-	**537**
BBB-	21,038,554	40,687	-	27,135	**21,106,376**	21,034,301	40,687	-	27,135	**21,102,123**
BBB+	-	-	220,127	-	**220,127**	-	-	220,127	-	**220,127**
Total	**21,040,134**	**41,224**	**248,843**	**27,135**	**21,357,336**	**21,034,301**	**41,224**	**248,843**	**27,135**	**21,351,503**

24. Investment securities *(continued)*

a) Financial assets measured at fair value through other items of comprehensive income (2017: Financial assets available-for-sale (continued)

Qualitative analysis of the bonds held by the **Group** and the **Bank** as at **31 December 2017** classified as "Financial assets available-for-sale", depending on the issuer's rating:

	Group					Bank				
In RON thousand	*Bonds and treasury certificates issued by the Romanian Government*	*Municipal bonds*	*Bonds issued by other financial institutions*	*Bonds issued by non-financial institutions*	**Total**	*Bonds and treasury certificates issued by the Romanian Government*	*Municipal bonds*	*Bonds issued by other financial institutions*	*Bonds issued by non-financial institutions*	**Total**
A-	-	-	8,286	-	**8,286**	-	-	8,286	-	**8,286**
BB+	-	388	-	27,190	**27,578**	-	388	-	27,190	**27,578**
BBB	-	-	105,118	-	**105,118**	-	-	105,118	-	**105,118**
BBB-	15,240,988	60,264	-	-	**15,301,252**	15,226,908	60,264	-	-	**15,287,172**
Total	**15,240,988**	**60,652**	**113,404**	**27,190**	**15,442,234**	**15,226,908**	**60,652**	**113,404**	**27,190**	**15,428,154**

As at 31 December 2017, the fund units classified by the Group and the Bank in the category of available-for-sale financial assets are not subject to rating, because there is no rating system in the investment fund industry.

As at 31 December 2018 and 31 December 2017, the Group and the Bank did not hold past due or impaired debt instruments classified as „Financial assets measured at fair value through other items of comprehensive income" (2017: "Financial assets available-for-sale").

Evolution of securities in the category "Financial assets measured at fair value through other items of comprehensive income (2017: Financial assets available-for-sale"):

	Group		Bank	
In RON thousand	**2018**	**2017**	**2018**	**2017**
As at January 1	15,821,300	14,993,828	16,032,612	15,120,524
Restatement IFRS 9	4,037	-	3,983	-
Reclassification IFRS 9	(375,541)	-	(601,366)	-
Acquisitions	12,662,334	11,203,068	12,656,309	11,216,420
Sales and repurchases	(6,462,084)	(10,126,397)	(6,452,309)	(10,101,484)
Coupon and amortization in P&L during the year (Note 8)	397,276	252,503	397,109	251,719
Coupon collected at term during the year	(675,618)	(548,339)	(675,464)	(547,748)
Gain/(Loss) from the measurement at fair value	(78,371)	3,023	(78,341)	49,269
Exchange rate differences	81,375	43,614	81,375	43,912
As at 31 December	**21,374,708**	**15,821,300**	**21,363,908**	**16,032,612**

24. Investment securities *(continued)*

a) Financial assets measured at fair value through other items of comprehensive income (2017: Financial assets available-for-sale (continued)

As at 31 December 2018, out of the treasury securities held by the Bank, the amount of RON 57,000 thousand (2017: RON 57,000 thousand) was pledged for current operations (RoCLEAR, SENT, MASTERCARD and VISA).

The treasury securities and bonds issued by the Romanian Government have maturities between 2019 and 2048.

As at 31 December 2018, the Bank concluded repo transactions with other financial institutions, backed by financial assets measured at fair value through other items of comprehensive income in amount of RON 246,598 thousand (2017: RON 258,435 thousand). The securities pledged under repo agreements may be sold or re-pledged by the counterparty.

The Alba Iulia municipal bonds bear variable interest rate (ROBID 6M + ROBOR 6M)/2 + 1.5% (31 December 2018: 4.50%; 31 December 2017: 2.5%). The Hunedoara municipal bonds bear a variable interest rate of ((BUBID3M + BUBOR3M)/2 + 1.43 % (31 December 2018: 4.43%). The bonds in RON issued by the Bucharest Municipality bear fixed interest rate of 3.58%, respectively of 5.10%.

The Group also holds: USD bonds issued by Black Sea Trade and Development, with a fixed interest rate of 4.875%, bonds issued by the European Bank for Reconstruction and Development, with a fixed interest rate of 2.55%, bonds issued by Globalworth Real Estate Inv. LTD with a fixed interest of 3% and bonds issued by International Investment Bank in RON, with a fixed interest rate of 3.4% and a variable interest rate of ROBOR 3M+1.5% (31 December 2018: 4.54%; 31 December 2017: 3.62 December 3.62%), and respectively ROBOR 3M+1.4% (31 December 2018: 4.57%), and in EUR with a fixed interest rate of 1.593% and 1.5026%, respectively.

Gains on the disposal of assets measured at fair value through other items of comprehensive income reclassified from other items of comprehensive income to profit or loss amounted to RON -7,774 thousand (2017: RON -3,206 thousand) with the related tax of RON -1,244 thousand for the Group and RON -7,555 thousand (2017: RON -4,102 thousand) with the related tax of RON -1,209 thousand for the Bank.

b) Financial assets at amortized cost - debt instruments

In 2018, the Group acquired and classified as financial assets measures at amortized cost - debt instruments, bonds in amount of RON 1,082,418 thousand and the Bank acquired bonds in amount of RON 431,099 thousand (31 December 2017: the Group and the Bank classified loans and advances to banks - securities reclassified according to IAS 39 into debt instruments: RON 222,792 thousand). Qualitative analysis of the financial assets measures at amortized cost - debt instruments held by the Group and as at 31 December 2018 and 31 December 2017, depending on the issuer's rating:

	Group		**Bank**	
In RON thousand	**2018**	**2017**	**2018**	**2017**
A	10,125	10,135	10,125	10,135
A+	-	17,335	-	17,335
A-	60,652	-	60,652	-
AA-	17,346	-	17,346	-
BB	15,062	44,844	15,062	44,844
BB+	29,960	6,559	29,960	6,559
BBB	118,902	25,519	118,902	25,519
BBB-	165,027	98,526	159,178	98,526
BBB+	29,216	19,874	19,874	19,874
B3	636,128	-	-	-
Total	**1,082,418**	**222,792**	**431,099**	**222,792**

24. Investment securities *(continued)*

b) Financial assets at amortized cost - debt instruments (continued)

The movement of securities in the category of financial assets measured at amortized cost - debt instruments is presented in the table below:

	Group		Bank	
In RON thousand	**2018**	**2017**	**2018**	**2017**
As at January 1	222,792	221,690	222,792	221,690
Acquisitions	13,421,435	-	290,151	-
Sales and repurchases	(12,600,659)	-	(82,899)	-
Coupon and amortization in P&L during the year (Note 8)	57,167	11,220	11,875	11,220
Coupon collected at term during the year	(14,084)	(10,868)	(11,624)	(10,868)
Recognition of expected credit losses (ECL) in accordance with IFRS 9	(5,932)	-	(65)	-
Exchange rate differences	1,699	750	869	750
As at 31 December	**1,082,418**	**222,792**	**431,099**	**222,792**

Qualitative analysis of the financial assets measures at amortized cost - debt instruments held by the Group and as at 31 December 2018 and 31 December 2017, depending on the issuer's rating:

	Group		Bank	
In RON thousand	**2018**	**2017**	**2018**	**2017**
Investment grade	401,268	171,389	386,077	171,389
Non-investment grade	681,150	51,403	45,022	51,403
Total	**1,082,418**	**222,792**	**431,099**	**222,792**

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25. Equity investments

As at 31 December 2018 the Bank had direct stakes in subsidiaries in amount of RON 537,677 thousand (2017: RON 156,631), thousand and the impairment allowance amounted to RON 0 thousand (2017: RON 0 thousand).

On 31 December 2018 the Bank has subsidiaries which directly and indirectly holdings are:

Entity	Head Office	% of shares owned	Share capital	Reserves	Profit/(Loss) as at 31 December 2018
BT Leasing Transilvania IFN S.A.	Cluj-Napoca, str. C-tin Brâncuşi nr. 74-76,et. 1	100%	58,674	7,325	33,042
BT Capital Partners S.A.	Cluj-Napoca, str. C-tin Brâncuşi nr. 74-76, parter	99.59%	15,426	534	1,646
BT Direct IFN S.A.	Cluj-Napoca, str. C-tin Brâncuşi nr. 74-76, et. 3	100%	26,880	3,012	3,723
BT Building S.R.L.	Cluj-Napoca, str. George Bariţiu nr. 8	100%	40,448	325	(14)
BT Investments S.R.L.	Cluj-Napoca, Bd. Eroilor nr.36	100%	50,940	485	22,293
BT Asset Management SAI S.A.	Cluj-Napoca, str. Emil Racoviţă. nr 22, etj. 1	80.00%	7,166	11,626	17,454
BT Solution Agent de Asigurare S.R.L.	Cluj-Napoca, str. C-tin Brâncuşi nr. 74-76, et. 1	99.95%	20	4	1,136
BT Safe Agent de Asigurare S.R.L.	Cluj-Napoca, str. C-tin Brâncuşi nr. 74-76, et. 1	99.99%	77	15	918
BT Intermedieri Agent de Asigurare S.R.L.	Cluj-Napoca, str. C-tin Brâncuşi nr. 74-76, et. 1	99.99%	507	101	3,605
BT Leasing Moldova S.R.L.	Republica Moldova, Chişinău, str. A.Puşkin nr. 60	100%	4,864	-	3,849
BT Asiom Agent de Asigurare S.R.L.	Cluj-Napoca, str. C-tin Brâncuşi nr. 74-76, et. 1	99.95%	20	4	1,534
BT Microfinanţare IFN S.A.	Bucureşti, Şos. Bucureşti-Ploieşti nr. 43	100%	46,760	753	4,543
Improvement Credit Collection S.R.L.	Cluj-Napoca, str. George Bariţiu nr. 1	100%	901	1,740	4,821
BC VICTORIABANK S.A.	Republica Moldova, Chişinău, str.31 August 1989 nr.141	44.63%	59,725	200,376	20,326
ERB Retail IFN S.A.	Cluj-Napoca, str. George Bariţiu nr.1	100.00%	58,775	16,550	2,316
Sinteza S.A.	Oradea, Şos.Borşului nr. 35	51.47%	9,917	712	(4,607)
ChimProd S.A.	Oradea, Şos.Borşului nr. 35	51.35%	90	1,443	(636)
Total			**381,190**	**245,005**	**115,949**

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26. Property and equipment and investment property

Group - In RON thousand

Gross carrying amount	Investment property	Land & buildings	Computers and equipment	Vehicles	Fixed assets in progress	Total
Balance as at 1 January 2017	**38,888**	**408,262**	**354,723**	**181,341**	**37,462**	**1,020,676**
Acquisitions of tangible assets and investment property	29	781	40,055	49,985	143,951	234,801
Reclassification of inventories into investment property	823	(823)	-	-	-	-
Reclassification from investments in progress	-	24,655	59,203	42,861	(126,719)	-
Revaluation (impact on reserve)	-	1,159	201	648	-	2,008
Revaluation (impact on profit and loss statement)	-	(976)	-	-	-	(976)
Disposals	(8,648)	(44,121)	(33,736)	(19,292)	(8,671)	(114,468)
Reclassification of tangible assets into inventories for disposal purposes	-	(49,328)	(3,705)	(487)	-	(53,520)
Balance at 31 December 2017	**31,092**	**339,609**	**416,741**	**255,056**	**46,023**	**1,088,521**
Balance as at January 1, 2018	**31,092**	**339,609**	**416,741**	**255,056**	**46,023**	**1,088,521**
Acquisitions of tangible assets and investment property	-	-	27,010	30,458	116,979	174,447
Tangible assets related to acquisition	61,988	89,915	186,225	13,545	4,417	356,090
Reclassification of inventories into fixed assets	-	25,787	-	-	-	25,787
Reclassification from investments in progress	-	36,321	47,244	9,785	(93,350)	-
Revaluation (impact on reserve)	-	(805)	(8,918)	538	-	(9,185)
Revaluation (impact on profit and loss statement)	(3,702)	(1,130)	-	-	-	(4,832)
Disposals	1,533	(52,585)	(151,221)	(278,938)	(10,486)	(491,697)
Reclassification of tangible assets related to acquisitions and mergers	-	-	(2,318)	(1)	-	(2,319)
Reclassification of tangible assets into inventories for disposal purposes	(43,450)	-	(15)	(37)	-	(43,502)
Reversal of provision related to investment property	(16,452)	-	-	-	-	(16,452)
Reversal of provision related to acquisitions	-	(374)	2,271	(1,158)	303	1,042
Balance at 31 December 2018	**31,009**	**436,738**	**517,019**	**29,248**	**63,886**	**1,077,900**

Notes to the separate and consolidated financial statements

26. Property and equipment and investment property *(continued)*

Amortization and depreciation

Group **-** *In RON thousand*	**Investment property**	**Land & buildings**	**Computers and equipment**	**Vehicles**	**Fixed assets in progress**	**Total**
Balance as at 1 January 2017	**-**	**180,682**	**217,810**	**58,896**	**4,554**	**461,942**
Charge for the year	-	13,882	37,631	33,865	-	85,378
Accumulated depreciation of disposals	-	(35,704)	(31,534)	(8,265)	-	(75,503)
Amortization related to revaluation (impact on reserve)	-	293	-	-	-	293
Amortization related to revaluation (impact on profit and loss statement)	-	(93)	-	-	-	(93)
Depreciation of fixed assets reclassified for disposal purposes	-	(13,894)	(2,847)	(417)	-	(17,158)
Reversal of provision for impairment	-	-	-	(6)	-	(6)
Balance at 31 December 2017	**-**	**145,166**	**221,060**	**84,073**	**4,554**	**454,853**
Balance as at January 1, 2018	**-**	**145,166**	**221,060**	**84,073**	**4,554**	**454,853**
Charge for the year	-	20,255	56,007	22,147	-	98,409
Depreciation related to acquisitions	16,080	52,841	154,750	10,081	-	233,752
Accumulated depreciation of disposals	372	(47,425)	(131,790)	(92,622)	-	(271,465)
Amortization related to revaluation (impact on reserve)	-	(3,750)	(10,698)	(369)	-	(14,817)
Amortization related to revaluation (impact on profit and loss statement)	-	(139)	-	-	-	(139)
Depreciation of fixed assets reclassified for disposal purposes	-	5,367	-	-	-	5,367
Amortization of tangible assets related to acquisitions and mergers	-	-	(1,466)	(1)	-	(1,467)
Provision for impairment	-	-	124	-	-	124
Reversal of provision for impairment	(16,452)	(603)	(66)	-	(3,499)	(20,620)
Balance at 31 December 2018	**-**	**171,712**	**287,921**	**23,309**	**1,055**	**483,997**
Net carrying amount						
As at 1 January 2018	**31,092**	**194,443**	**195,681**	**170,983**	**41,469**	**633,668**
As at 31 December 2018	**31,009**	**265,026**	**229,098**	**5,939**	**62,831**	**593,903**

Notes to the separate and consolidated financial statements

26. Property and equipment and investment property *(continued)*

Bank *- In RON thousand*	**Investment property**	**Land & buildings**	**Computers and equipment**	**Vehicles**	**Fixed assets in progress**	**Total**
Gross carrying amount						
Balance as at 1 January 2017	**4,956**	**369,191**	**319,577**	**22,908**	**25,958**	**742,590**
Acquisitions of property and equipment	-	761	39,595	329	101,511	142,196
Reclassification of inventories into investment property	-	24,655	58,859	457	(83,971)	-
Revaluation (impact on reserve)	-	1,159	201	648	-	2,008
Revaluation (impact in profit or loss)	-	(976)	-	-	-	(976)
Disposals	(3,534)	(38,404)	(33,368)	(1,575)	(8,640)	(85,521)
Reclassification of tangible assets into inventories for disposal purposes	-	(49,328)	(3,705)	(487)	-	(53,520)
Balance at December 31, 2017	**1,422**	**307,058**	**381,159**	**22,280**	**34,858**	**746,777**
Balance as at January 1, 2018	**1,422**	**307,058**	**381,159**	**22,280**	**34,858**	**746,777**
Direct acquisitions	-	-	25,464	313	85,176	110,953
Balance related to acquisitions and mergers	-	50,112	134,912	8,021	2,505	195,550
Reclassification of inventories into fixed assets	-	25,787	-	-	-	25,787
Reclassification from investments in progress	-	35,897	41,848	-	(77,745)	-
Revaluation (impact on reserve)	-	1,721	221	767	-	2,709
Revaluation (impact in profit or loss)	27	(1,130)	-	-	-	(1,103)
Disposals	-	(51,673)	(138,497)	(11,162)	(5,488)	(206,820)
Reclassifications of tangible assets related to acquisitions and mergers	-	-	(2,318)	(1)	-	(2,319)
Reversal of provision related to acquisitions	-	(374)	2,271	(1,158)	303	1,042
Balance at 31 December 2018	**1,449**	**367,398**	**445,060**	**19,060**	**39,609**	**872,576**

Notes to the separate and consolidated financial statements

26. Property and equipment and investment property *(continued)*

Bank *- In RON thousand*	Investment property	Land & buildings	Computers and equipment	Vehicles	Fixed assets in progress	Total
Balance as at 1 January 2017	**-**	**160,360**	**192,782**	**19,143**	**-**	**372,285**
Charge for the year	-	13,777	35,350	2,577	-	51,704
Accumulated depreciation of disposals	-	(35,702)	(31,476)	(1,640)	-	(68,818)
Amortization related to revaluation (impact on reserve)	-	293	-	-	-	293
Depreciation related to revaluation (impact on profit and loss statement)	-	(93)	-	-	-	(93)
Depreciation of fixed assets reclassified for disposal purposes	-	(12,979)	(2,847)	(417)	-	(16,243)
Balance at 31 December 2017	**-**	**125,656**	**193,809**	**19,663**	**-**	**339,128**
Balance as at January 1, 2018	**-**	125,656	193,809	19,663	-	339,128
Amortization expense during the year	-	18,717	50,085	1,664	-	70,466
Balance of depreciation related to acquisitions and mergers		39,997	113,804	6,083	-	159,884
Accumulated depreciation of disposals	-	(47,031)	(124,781)	(11,062)	-	(182,874)
Amortization related to revaluation (impact on reserve)	-	493	-	-	-	493
Amortization related to revaluation (impact on profit and loss statement)	-	(139)	-	-	-	(139)
Depreciation of fixed assets reclassified for disposal purposes	-	5,367	-	-	-	5,367
Depreciation of fixed assets related to acquisitions and reclassified	-	-	(1,466)	(1)	-	(1,467)
Reversal of provision for impairment	-	(603)	-	-	-	(603)
Balance at 31 December 2018	**-**	**142,457**	**231,451**	**16,347**	**-**	**390,255**
Net carrying amount						
As at 1 January 2018	**1,422**	**181,402**	**187,350**	**2,617**	**34,858**	**407,649**
As at 31 December 2018	**1,449**	**224,941**	**213,609**	**2,713**	**39,609**	**482,321**

Notes to the separate and consolidated financial statements

26. Property and equipment and investment property *(continued)*

As at 31 December 2018, the Group included under fixed assets constructions and equipment acquired through financial lease, at a net carrying amount of RON 58 thousand (2017: RON 3,542 thousand) and intangible assets acquired through financial lease at a net carrying amount of RON 0 thousand (2017: RON 0 thousand); the Bank included under fixed assets the vehicles acquired through finance lease with a net carrying amount of RON 58 thousand. As at 31 December 2018, the Group had pledged property, equipment or intangible assets of RON 854 thousand (2017: RON 1,467 thousand); the Bank did not have any pledged tangible or intangible assets. Property and equipment as at 31 December 2018 were revaluated by an independent evaluator. If the assets of the Group had been booked under the cost model, the recognized carrying amount would have been: land and buildings: RON thousand 246,054 (2017: RON 175,450 thousand), investment property RON 30,657 thousand (2017: RON 30,671 thousand), computers and equipment RON 228,839 thousand (2017: RON 195,407 thousand), vehicles RON 5,172 thousand (2017: RON 170,292 thousand), fixed assets in progress RON 62,831 thousand (2017: RON 41,469).
If the assets of the Bank had been booked under the cost model, the recognized carrying amount would have been: land and buildings RON 205,969 thousand (2017: RON thousand 162,409), investment property RON 1,097 thousand (2017: RON 1,088 thousand), computers and equipment RON 213,350 thousand (2017: RON 187,076 thousand), vehicles RON 1,946 thousand (2017: RON 1,926 thousand), fixed assets in progress RON 39,609 thousand (2017: RON 34,858 thousand).

27. Intangible assets (including goodwill)

In RON thousand	Group		Bank
Gross carrying amount	**Goodwill**	**Software**	**Software**
Balance as at 1 January 2017	**2,774**	**209,483**	**197,278**
Additions	-	85,976	85,429
Revaluation (impact on reserve)	-	530	530
Disposals	-	(7,682)	(7,672)
Balance at 31 December 2017	**2,774**	**288,307**	**275,565**
Balance as at January 1, 2018	**2,774**	**288,307**	**275,565**
Acquisitions	-	104,646	101,402
Balance related to acquisitions and mergers	1,521	268,206	215,120
Disposals	-	(116,005)	(116,471)
Reversal of provision related to acquisitions	-	34,594	34,594
Balance at 31 December 2018	**4,295**	**579,748**	**510,210**
Accumulated amortization			
Balance as at 1 January 2017	-	**122,883**	**118,882**
Charge for the year	-	39,646	38,402
Disposals	-	(7,477)	(7,480)
Balance at 31 December 2017	**-**	**155,052**	**149,804**
Balance as at January 1, 2018	**-**	**155,052**	**149,804**
Balance of depreciation related to acquisitions and mergers	-	169,544	139,629
Charge for the year	-	64,105	58,784
Disposals	-	(91,788)	(91,854)
Reversal of provision for impairment	-	(384)	-
Balance at 31 December 2018	**-**	**296,529**	**256,363**
Net carrying amount			
As at 1 January 2018	**2,774**	**133,255**	**125,761**
As at 31 December 2018	**4,295**	**283,219**	**253,847**

27. Intangible assets (including goodwill) *(continued)*

Impairment testing for cash generating units included in the goodwill

For the purpose of impairment testing, the goodwill is allocated to the Group's operating divisions which represent the lowest level at which the goodwill is monitored for internal management purposes.

As at 31 December 2018 the goodwill allocated by the Group to BT Leasing Transilvania IFN S.A. was of RON 376 thousand and the goodwill allocated to BT Capital Partners S.A. was of RON 2,398 thousand. (2017: RON 376 thousand allocated to BT Leasing Transilvania IFN S.A. and RON 2,398 thousand allocated to BT Capital Partners S.A.).

As at 31 December 2017, the goodwill was tested for depreciation in accordance with IFRS 3 and no impairment adjustments were necessary.

Notes to the separate and consolidated financial statements

28. Deferred tax assets and liabilities

Deferred tax assets/liabilities at Group level, as at 31 December 2018:

In RON thousand	31 December 2017	Business combinations	IFRS 9 restatements	Recognized in profit and loss	Recognized in other items of comprehensive income	Recognized directly in shareholders' equity	31 December 2018
Tax effect of temporary deductible /(taxable) differences (including tax losses carried forward), resulting from:							
Financial assets from interbank operations	-	6,342	-	(6,053)	-	14	303
Loans and receivables	1,764	27,653	2,581	(44,008)	(565)	21,448	8,873
Financial assets available-for-sale	1,349	-	(31,100)	-	29,751	-	-
Financial assets measured at fair value through other items of comprehensive income	-	7,318	19,453	(5,830)	10,294	139	31,374
Financial assets at amortized cost	-	532	-	(533)	-	2	1
Financial assets at fair value through profit or loss	60	(11,171)	11,647	28,091	791	(29,751)	(333)
Other assets	621	6,467	-	4,756	(47)	247	12,044
Property and equipment and intangible assets	(3,243)	(3,938)	4	(3,989)	(354)	-	(11,520)
Provisions and other liabilities	12,773	14,708	(52)	(237)	-	(2)	27,190
Tax losses carried forward	173,821	6,550	-	(174,383)	-	-	5,988
Deferred tax asset / (liability)	**187,145**	**54,461**	**2,533**	**(202,186)**	**39,870**	**(7,903)**	**73,920**
Recognition of deferred tax asset	200,326	45,944	22,702	(186,420)	9,851	384	92,787
Recognition of deferred tax liability	(13,181)	8,517	(20,169)	(15,766)	30,019	(8,287)	(18,867)
Deferred tax asset / (liability)	**187,145**	**54,461**	**2,533**	**(202,186)**	**39,870**	**(7,903)**	**73,920**

Notes to the separate and consolidated financial statements

28. Deferred tax assets and liabilities *(continued)*

Deferred tax assets/liabilities at **Bank** level, as at **31 December 2018**:

In RON thousand	**31 December 2017**	**Business combinations**	**IFRS 9 restatements**	**Recognized in profit and loss**	**Recognized in other items of comprehensive income**	**Recognized directly in shareholders' equity**	**31 December 2018**
Tax effect of temporary deductible /(taxable) differences (including tax losses carried forward), resulting from:							
Financial assets from interbank operations	-	(7)	-	(7)	-	14	-
Loans and receivables	-	23,632	-	(45,081)	-	21,449	-
Financial assets available-for-sale	(9,938)	-	(19,813)	-	29,751	-	-
Financial assets measured at fair value through other items of comprehensive income	-	7,318	19,813	(5,938)	10,368	140	31,701
Financial assets at amortized cost	-	-	-	(2)	-	2	-
Financial assets at fair value through profit and loss	-	(5,281)	-	34,336	696	(29,751)	-
Other assets	534	494	-	(262)	3	-	769
Tangible and intangible assets	(3,219)	(3,944)	-	(741)	(356)	-	(8,260)
Provisions and liabilities	12,045	12,280	-	152	-	-	24,477
Tax losses carried forward	173,821	-	-	(173,821)	-	-	-
Deferred tax asset / (liability)	**173,243**	**34,492**	**-**	**(191,364)**	**40,462**	**(8,146)**	**48,687**
Recognition of deferred tax asset	186,400	20,091	19,813	(179,868)	10,371	139	56,946
Recognition of deferred tax liability	(13,157)	14,401	(19,813)	(11,496)	30,091	(8,285)	(8,259)
Deferred tax asset / (liability)	**173,243**	**34,492**	**-**	**(191,364)**	**40,462**	**(8,146)**	**48,687**

28. Deferred tax assets and liabilities *(continued)*

Deferred tax assets/liabilities at **Group** level, as at **31 December 2017**:

In RON thousand	**01 January 2017**	**Recognized in profit and loss**	**Recognized in other items of comprehensive income**	**31 December 2017**
Tax effect of temporary deductible /taxable differences (including tax losses carried forward), resulting from:				
Property and equipment and intangible assets	(4,454)	1,550	(339)	(3,243)
Financial assets at fair value through profit and loss and derivatives	64	(4)	-	60
Financial assets available-for-sale	1,836	54	(541)	1,349
Other assets	225	243	66	534
Loans and receivables	576	1,188	-	1,764
Provisions and other liabilities	12,012	761	-	12,773
Tax losses carried forward	368,345	(194,524)	-	173,821
Other	112	-	(25)	87
Deferred tax asset / (liability)	**378,716**	**(190,732)**	**(839)**	**187,145**
Recognition of deferred tax asset	385,225	(192,282)	7,383	200,326
Recognition of deferred tax liability	(6,509)	1,550	(8,222)	(13,181)
Deferred tax asset / (liability)	**378,716**	**(190,732)**	**(839)**	**187,145**

Deferred tax assets/liabilities at **Bank** level, as at **31 December 2017**:

In RON thousand	**01 January 2017**	**Recognized in profit and loss**	**Recognized in other items of comprehensive income**	**31 December 2017**
Tax effect of temporary deductible /taxable differences (including tax losses carried forward), resulting from:				
Property and equipment and intangible assets	(4,418)	1,558	(359)	(3,219)
Financial assets available-for-sale	(2,055)	-	(7,883)	(9,938)
Other assets	225	243	66	534
Provisions and other liabilities	11,843	202	-	12,045
Tax losses carried forward	368,345	(194,524)	-	173,821
Deferred tax asset / (liability)	**373,940**	**(192,521)**	**(8,176)**	**173,243**
Recognition of deferred tax asset	380,413	(194,079)	66	186,400
Recognition of deferred tax liability	(6,473)	1,558	(8,242)	(13,157)
Deferred tax asset / (liability)	**373,940**	**(192,521)**	**(8,176)**	**173,243**

The tax rate used to calculate the current and deferred tax position at 31 December 2018 was 16% (2017: 16%).

Deferred tax is determined based on the liability method for the temporary differences between the fiscal base for the calculation of the tax on assets and liabilities and their book value.

28. Deferred tax assets and liabilities *(continued)*

The Bank recognized the deferred tax asset of RON 0 thousand as at 31 December 2018 (2017: RON 173,821 thousand), which is the equivalent of an unutilized fiscal loss in amount of RON 0 thousand (2017: RON 1,086,380 thousand).
The Bank's management expects to recover the tax losses carried forward this year and the entire income tax asset.

29. Other financial assets

	Group		Bank	
In RON thousand	**2018**	**2017**	**2018**	**2017**
Amounts under settlement	197,565	109,121	187,724	109,133
Non-recourse factoring	203,958	223,926	203,958	223,926
Sundry debtors and advances for non-current assets	399,255	81,237	369,471	54,189
Instruments received for collection	50,052	45,072	50,052	45,072
Other financial assets	11,851	7,695	10,575	7,643
Impairment allowance for other financial assets	(19,444)	(55,988)	(10,715)	(51,304)
Total	**843,237**	**411,063**	**811,065**	**388,659**

As at 31 December 2018, out of RON 843,237 thousand (2017: RON 411,063 thousand), the Group's other impaired financial assets amounted to RON 72,434 thousand (2017: RON 9,729 thousand).
As at 31 December 2018, out of RON 811,065 thousand (2017: RON 388,659 thousand), the Bank's other impaired financial assets amounted to RON 5,042 thousand (2017: RON 4,156 thousand).
The evolution of impairment allowance for other assets during the years 2018 and 2017 is presented below:

	Group		Bank	
In RON thousand	**2018**	**2017**	**2018**	**2017**
Balance as at 1 January	(55,988)	(112,101)	(51,304)	(108,992)
Recognition of expected credit losses (ECL) in accordance with IFRS 9	(14,103)	-	(14,103)	-
Net impairment charge	13,594	(38,000)	14,152	(36,425)
Impairment allowance booked through acquisitions	(7,035)	-	-	-
Impairment allowances on written off loans	40,681	94,232	40,681	94,232
Other allowances (exchange rate differences, unwinding, deconsolidation)	3,407	(119)	(141)	(119)
Balance at 31 December	**(19,444)**	**(55,988)**	**(10,715)**	**(51,304)**

The quality analysis of other financial assets held by the **Group** as at **31 December 2018** is detailed below:

Group	Retail			Companies		
31 December 2018	**RON**	**CURRENCY**	**TOTAL**	**RON**	**CURRENCY**	**TOTAL**
Amounts under settlement	59,041	4,079	63,120	87,481	46,964	134,445
Non-recourse factoring	-	-	-	173,061	30,897	203,958
Sundry debtors and advances for non-current assets	55,440	73,083	128,523	203,461	67,268	270,729
Instruments received for collection	-	-	-	50,052	-	50,052
Other financial assets	-	3	3	6,621	5,230	11,851
Impairment allowance for other financial assets	(2,216)	(369)	(2,585)	(5,287)	(11,572)	(16,859)
Total	**112,265**	**76,796**	**189,061**	**515,389**	**138,787**	**654,176**

29. Other financial assets *(continued)*

The quality analysis of other financial assets held by the **Group** as at **31 December 2017** is detailed below:

Group		**Retail**			**Companies**	
31 December 2017	**RON**	**CURRENCY**	**TOTAL**	**RON**	**CURRENCY**	**TOTAL**
Amounts under settlement	2,590	2,863	5,453	86,096	17,572	103,668
Non-recourse factoring	-	-	-	196,876	27,050	223,926
Sundry debtors and advances for non-current assets	4,326	2,290	6,616	46,593	28,028	74,621
Instruments received for collection	-	-	-	45,072	-	45,072
Other financial assets	-	-	-	3,355	4,340	7,695
Impairment allowance for other financial assets	(2,005)	(278)	(2,283)	(52,053)	(1,652)	(53,705)
Total	**4,911**	**4,875**	**9,786**	**325,939**	**75,338**	**401,277**

The quality analysis of other financial assets held by the **Bank** as at **31 December 2018** is detailed below:

Bank		**Retail**			**Companies**	
31 December 2018	**RON**	**CURRENCY**	**TOTAL**	**RON**	**CURRENCY**	**TOTAL**
Amounts under settlement	59,041	4,079	63,120	87,481	37,123	124,604
Non-recourse factoring	-	-	-	173,061	30,897	203,958
Sundry debtors and advances for non-current assets	55,232	72,853	128,085	191,831	49,555	241,386
Instruments received for collection	-	-	-	50,052	-	50,052
Other financial assets	-	-	-	6,621	3,954	10,575
Impairment allowance for other financial assets	(2,160)	(370)	(2,530)	(4,481)	(3,704)	(8,185)
Total	**112,113**	**76,562**	**188,675**	**504,565**	**117,825**	**622,390**

The quality analysis of other financial assets held by the **Bank** as at **31 December 2017** is detailed below:

Bank		**Retail**			**Companies**	
31 December 2017	**RON**	**CURRENCY**	**TOTAL**	**RON**	**CURRENCY**	**TOTAL**
Amounts under settlement	2,590	2,864	5,454	86,077	17,602	103,679
Non-recourse factoring	-	-	-	196,876	27,050	223,926
Sundry debtors and advances for non-current assets	4,011	2,290	6,301	21,570	26,318	47,888
Instruments received for collection	-	-	-	45,072	-	45,072
Other financial assets	-	-	-	3,303	4,340	7,643
Impairment allowance for other financial assets	(1,967)	(278)	(2,245)	(47,407)	(1,652)	(49,059)
Total	**4,634**	**4,876**	**9,510**	**305,491**	**73,658**	**379,149**

30. Other non-financial assets

	Group		**Bank**	
In RON thousand	**2018**	**2017**	**2018**	**2017**
Inventories and similar assets	204,611	115,208	80,898	88,140
Accrued expenses	58,969	37,989	53,674	35,740
VAT and other taxes to be received	12,994	6,227	6,871	1,157
Other non-financial assets	1,456	797	532	150
Impairment allowance for other non-financial assets	(95,972)	(24,180)	(16,812)	(16,673)
Total	**182,058**	**136,041**	**125,163**	**108,514**

As at 31 December 2018, the Group and the Bank included in the category of “Inventories and related items” tangible assets which were reclassified as fixed assets held-for-sale in amount of RON 17,497 thousand and which were close to the final stage of negotiation for sale.

30. Other non-financial assets *(continued)*

The evolution of impairment allowance for other assets during the year is presented below:

In RON thousand	Group		Bank	
	2018	**2017**	**2018**	**2017**
Balance as at 1 January	**(24,180)**	**(30,690)**	**(16,673)**	**(20,402)**
Net impairment charge	(9,761)	6,510	(139)	3,729
Additions related to acquisition	(62,031)	-	-	-
Balance at 31 December	**(95,972)**	**(24,180)**	**(16,812)**	**(16,673)**

The inventories and related items of the Bank include assets acquired by debt enforcement or giving in payment and other assets available for sale, at a net value of RON 53,247 thousand, structured as follows: buildings RON 33,319 thousand, lands RON 19,928 thousand, equipment RON 0 thousand, vehicles RON 0 thousand and furniture RON 0 thousand (2017: RON 40,238 thousand net value, structured as follows: buildings RON 19,332 thousand, lands RON 20,906 thousand, equipment RON 0 thousand, vehicles RON 0 thousand and furniture RON 0 thousand).

The inventories and related items of the Group include purchased assets held for sale amounting to RON 89,925 thousand, structured as follows: buildings RON 55,992 thousand, lands RON 24,914 thousand, equipment RON 4,884 thousand, vehicles RON 4,135 thousand and furniture RON 0 thousand (2017: RON 49,118 thousand, structured as follows: buildings RON 20,346 thousand, lands RON 21,410 thousand, equipment RON 2,454 thousand, vehicles RON 4,908 thousand and furniture RON 0 thousand).

31. Deposits from banks

	Group		Bank	
In RON thousand	**2018**	**2017**	**2018**	**2017**
Sight deposits	58,424	75,480	70,684	75,480
Term deposits	136,924	52,466	136,924	52,466
Total	**195,348**	**127,946**	**207,608**	**127,946**

32. Deposits from customers

	Group		Bank	
In RON thousand	**2018**	**2017**	**2018**	**2017**
Current accounts	31,797,142	20,893,217	30,446,054	20,954,415
Sight deposits	786,103	637,615	560,404	637,615
Term deposits	31,982,351	26,951,200	30,941,481	27,059,188
Collateral deposits	594,870	450,163	574,430	447,983
Total	**65,160,466**	**48,932,195**	**62,522,369**	**49,099,201**

32. Deposits from customers *(continued)*

Deposits from customers can be also analyzed as follows:

	Group		Bank	
In RON thousand	**2018**	**2017**	**2018**	**2017**
Retail	43,334,901	30,403,576	41,665,151	30,401,279
Companies	21,825,565	18,528,619	20,857,218	18,697,922
Total	**65,160,466**	**48,932,195**	**62,522,369**	**49,099,201**

The table below presents the deposits from customers, split by economic sector concentration:

	Group		*Bank*	
Sector	**2018**	**2017**	**2018**	**2017**
Retail customers	66.54%	62.15%	66.69%	61.93%
Financial and insurance activities	3.85%	6.43%	4.17%	6.66%
Services	6.25%	6.60%	6.28%	6.61%
Trading	4.58%	4.63%	4.52%	4.61%
Manufacturing	3.05%	3.16%	2.97%	3.15%
Energy	1.96%	2.72%	1.57%	2.71%
Constructions	3.23%	3.30%	3.21%	3.28%
Transportation	3.03%	2.33%	3.07%	2.33%
Telecommunications	1.56%	1.99%	1.59%	1.98%
Agriculture	1.72%	2.05%	1.77%	2.04%
Mining	0.34%	1.42%	0.34%	1.41%
Education	0.69%	0.86%	0.70%	0.86%
Real estate	1.23%	0.99%	1.18%	1.06%
Healthcare	0.90%	0.84%	0.91%	0.84%
Other	0.40%	0.30%	0.36%	0.30%
Government institutions	0.17%	0.21%	0.18%	0.21%
Administrations	0.45%	-	0.47%	-
Self-employed	0.05%	0.02%	0.02%	0.02%
Total	**100.00%**	**100.00%**	**100.00%**	**100.00%**

32. Deposits from customers *(continued)*

In RON thousand	*Group*		*Bank*	
Sector	**2018**	**2017**	**2018**	**2017**
Retail customers	43,347,508	30,403,576	41,677,757	30,401,279
Financial and insurance activities	2,513,727	3,145,002	2,609,557	3,270,545
Services	4,073,319	3,237,602	3,928,318	3,245,015
Trading	2,983,530	2,264,592	2,828,347	2,264,466
Manufacturing	1,988,235	1,544,727	1,857,688	1,544,959
Energy	1,275,784	1,332,496	984,151	1,332,496
Constructions	2,103,552	1,612,523	2,008,815	1,612,492
Transportation	1,973,515	1,138,163	1,920,938	1,138,038
Telecommunications	1,018,570	974,278	992,652	974,278
Agriculture	1,122,470	1,001,161	1,108,883	1,001,161
Mining	219,086	693,879	215,531	693,879
Education	447,920	422,127	439,473	422,127
Real estate	803,081	484,678	734,580	520,703
Healthcare	587,550	412,650	570,364	413,033
Other	263,123	148,568	225,084	148,557
Government institutions	112,321	105,112	112,321	105,112
Administrations	295,439	-	295,439	-
Self-employed	31,736	11,061	12,471	11,061
Total	**65,160,466**	**48,932,195**	**62,522,369**	**49,099,201**

33. Loans from banks and other financial institutions

	Group		**Bank**	
In RON thousand	**2018**	**2017**	**2018**	**2017**
Loans from government entities	8,131	-	-	-
Loans from commercial banks	280,994	277,196	-	-
Romanian banks	*275,577*	*277,196*	-	-
Foreign banks	*5,417*	-	-	-
Loans from development banks	988,611	884,371	893,348	774,436
Repurchase agreements (repo transactions)	246,598	258,435	246,598	258,435
Other funds from financial institutions	179,217	67,020	45,610	67,020
Total	**1,703,551**	**1,487,022**	**1,185,556**	**1,099,891**

The interest rates for the loans from banks and financial institutions were situated in the following ranges:

	2018		**2017**	
	Minimum	Maximum	Minimum	Maximum
EUR	0.00%	4.15%	0.32%	4.15%
RON	0.00%	6.33%	0.00%	ROBOR 3M+1.25%
USD	3.03%	3.11%	-	-
MDL	5.68%	6.88%	-	-

33. Loans from banks and other financial institutions *(continued)*

At 31 December 2018 and 2017, the Bank and the Group observed the financial indicators stipulated in the loan agreements signed with creditors.

The table below summarizes the underlying securities of repo agreements:

In RON thousand	**Group**				**Bank**			
	2018		**2017**		**2018**		**2017**	
	Carrying amount		**Carrying amount**		**Carrying amount**		**Carrying amount**	
	Transferred assets	**Related liabilities**	**Transferred assets**	**Related liabilities**	**Transferred assets**	**Related liabilities**	**Transferred assets**	**Related liabilities**
	248,798	246,598	258,540	258,435	248,798	246,598	258,540	258,435
Total	**248,798**	**246,598**	**258,540**	**258,435**	**248,798**	**246,598**	**258,540**	**258,435**

34. Subordinated liabilities

At 31 December 2018 and 2017, the Bank and the Group observed the financial indicators stipulated in the subordinated loan agreements signed with creditors.

	Group		**Bank**	
In RON thousand	**2018**	**2017**	**2018**	**2017**
Loans from development banks and financial institutions	280,713	367,139	280,713	367,139
Non-convertible bounds	1,327,182	-	1,323,323	-
Convertible Bonds	47,482	47,439	47,482	47,439
Total	**1,655,377**	**414,578**	**1,651,518**	**414,578**

Subordinated debt includes subordinated loans from development banks and financial institutions, as well as convertible and non-convertible bonds.

Subordinated loans include the following:

- loan in amount of EUR 25 million, equivalent of RON 116,598 thousand (2017: RON 116,493 thousand), contracted in 2013 at 6m EURIBOR + 6.20%, due 2023;
- loan in amount of USD 40 million, equivalent of RON 162,944 thousand (2017: RON 155,660 thousand) contracted in 2014 to 6m LIBOR + 5.80%, due 2023.

Two subordinate loans matured in 2018:

- loan in the amount of EUR 15 million, contracted in 2013 at 6m EURIBOR + 6.20%;
- loan in the amount of EUR 5 million, contracted in 2012 at 6m EURIBOR + 6.50%;

In 2013, the BANCA TRANSILVANIA S.A issued convertible bonds amounting to EUR 30 million (RON 139,917 thousand), at 6M EURIBOR + 6.25% and due in 2020. The outstanding bonds include the option of the holder to convert them into shares. During 2014, the Bank converted bonds amounting to EUR 20,072,238 (RON 88,318,847 equivalent), used as follows: RON 49,444,546 share capital increase and RON 38,873,301 share premium. During 2015, the Bank did not convert bonds.

During 2016, the Bank converted bonds amounting to EUR 23,004 (101,962 RON equivalent) as follows: RON 44,113 share capital increase and RON 57,849 share premium.

During 2017, the Bank converted bonds amounting to EUR 2,122 (9,683 RON equivalent) as follows: RON 3,483 share capital increase and RON 6,200 share premium. In 2018, the Bank did not perform any bond conversion.

As at 31 December 2018, the value of convertible bonds was EUR 9,902,636, the equivalent of RON 46,185 thousand (2017: EUR 9,902,636 , the equivalent of RON 46,143 thousand).

34. Subordinated liabilities *(continued)*

In 2018, Banca Transilvania S.A. issued non-convertible bonds amounting to EUR 285 million, equivalent to RON 1,329,212 thousand, at 6M EURIBOR + +3.75% p.a. and due in 2028. The nominal value of a bond is EUR 100,000.

Accrued interest and amortization on subordinated debt amounts to RON 1,171 thousand (2017: RON 1,792 thousand) and on convertible bonds amounts to RON 1,297 thousand (2017: RON 1,296 thousand) and on non-convertible bonds amounts to RON -5,889 thousand.

35. Provisions for other risks and loan commitments

The following items are included under Provisions for other risks and loan commitments:

	Group		Bank	
In RON thousand	**2018**	**2017**	**2018**	**2017**
Provisions for loan commitments, financial guarantees and other commitments given	166,430	65,740	154,654	65,744
Provisions for employee benefits as compensated absences	20,910	14,518	19,499	13,489
Provisions for other employee benefits	36,223	28,239	28,571	24,859
Provisions for non-performing loans, risks and charges (*)	249,159	274,352	241,949	269,025
Total	**472,722**	**382,849**	**444,673**	**373,117**

(*)Provisions for risks and charges primarily include provisions for litigation and other risks taken after the merger with Volksbank Romania SA. and Bancpost S.A..

36. Other financial liabilities

	Group		Bank	
In RON thousand	**2018**	**2017**	**2018**	**2017**
Amounts under settlement	507,831	1,085,604	426,695	1,045,468
Sundry creditors	81,518	98,025	50,628	59,828
Liabilities related to leasing *(i)*	85	382	85	-
Other financial liabilities	59,412	38,221	55,533	37,791
Total	**648,846**	**1,222,232**	**532,941**	**1,143,087**

(i) Future minimum lease payments under finance leases and the present value of the net minimum lease payments are as follows:

In RON thousand	**2018**	**2017**
Minimum lease payments		
2018	85	388
2019		-
Total minimum lease payments	**85**	**388**
Less future interest	-	(6)
Current value of minimum lease payments	**85**	**382**

37. Other non-financial liabilities

	Group		Bank	
In RON thousand	**2018**	**2017**	**2018**	**2017**
Other taxes payable	60,433	24,424	67,642	22,645
Other non-financial liabilities	72,982	41,582	47,230	39,631
Total	**133,415**	**66,006**	**114,872**	**62,276**

38. Share capital

The statutory share capital of the Bank at 31 December 2018, as recorded with the Trade Register was represented by 4,812,481,064 ordinary shares with a nominal value of RON 1 each (at 31 December 2017: 4,341,439,404 shares with a nominal value of RON 1 each). The shareholders structure of the Bank is presented in Note 1.

The share capital increase took place by incorporating the statutory profit reserves in amount of 471,041,660 and was recorded with the Trade Register in 2018.

	Group		Bank	
In RON thousand	**2018**	**2017**	**2018**	**2017**
Paid share capital recorded with the Trade Register	4,812,481	4,341,439	4,812,481	4,341,439
Share capital adjustment to inflation	89,899	89,899	89,899	89,899
Share capital adjustment with unrealized revaluation reserves of tangible assets	(3,398)	(3,398)	(3,398)	(3,398)
Total	**4,898,982**	**4,427,940**	**4,898,982**	**4,427,940**

39. Treasury shares

As at 31 December 2018 and 31 December 2017, repurchased treasury shares were structured as follows:

In RON thousand	Group		Bank	
	2018	**2017**	**2018**	**2017**
As at January 1	(47,427)	(29,993)	(32,140)	(16,546)
Repurchase of treasury shares	(48,686)	(65,234)	(48,686)	(65,234)
Share revaluation	84	5,626	84	5,626
Share-based payments	57,471	44,014	57,471	44,014
Free shares	-	(1,840)	-	-
Total Treasury shares	**(38,558)**	**(47,427)**	**(23,271)**	**(32,140)**

40. Retained earnings

As at **31 December 2018** and **31 December 2017**, retained earnings were structured as follows:

	Group		Bank	
In RON thousand	**2018**	**2017**	**2018**	**2017**
As at 31 December 2017	2,202,764	1,954,073	1,981,886	1,779,244
Adoption of new standards	(32,386)	-	34,487	-
Profit for 2018	1,249,740	1,239,452	1,219,391	1,185,979
Distribution of profit to statutory reserves	(84,173)	(70,426)	(82,123)	(68,925)
Share capital increase from the previous year profit	(471,042)	(695,388)	(471,042)	(695,388)
Profit allocated for dividend payments	(610,000)	(219,000)	(610,000)	(219,000)
Realization of revaluation surplus	1,555	12,926	1,555	8,658
Fund allocation for the payment of shares to the employees	66,736	41,307	66,736	41,307
Distribution of treasury shares to the employees	(57,555)	(49,640)	(57,555)	(49,640)
Retained earnings as a result of the weighted average cost for assets measured at fair value through the comprehensive income	(14,069)	-	(14,750)	-
Reserves from the conversion of shares held by minority shareholders upon the merger	6,334	-	6,334	-
Other (consolidation, corrections of retained earnings, modification of the percentage of funds)	(839)	(10,540)	551	(349)
Total retained earnings	**2,257,065**	**2,202,764**	**2,075,470**	**1,981,886**

41. Reserves from the revaluation of tangible and intangible assets

As at 31 December 2018 and 31 December 2017, the reserves from the revaluation of tangible and intangible assets consisted in:

	Group		Bank	
In RON thousand	**2018**	**2017**	**2018**	**2017**
As at January 1	17,524	26,227	20,416	27,188
Increase from fixed asset revaluation	2,236	2,245	2,216	2,245
Deferred tax revaluation	(358)	(359)	(355)	(359)
Change in reserve as a result of fixed asset disposal	-	2,337	-	-
Retained earnings from the realization of revaluation reserves	(1,555)	(12,926)	(1,555)	(8,658)
Total Revaluation reserves	**17,847**	**17,524**	**20,722**	**20,416**

42. Reserves from financial assets measured at fair value through other items of comprehensive income (2017: Reserves from available-for-sale financial assets)

As at 31 December, 2018 and 31 December, 2017, the reserves from financial assets measured at fair value through other items of comprehensive income (2017: Reserves from available-for-sale financial assets) were the following:

	Group		Bank	
In RON thousand	**2018**	**2017**	**2018**	**2017**
Previously reported balance 31 December 2017	(6,247)	(8,791)	52,176	10,790
Adoption of new standards	(93,815)	-	(152,002)	-
Balance as at January 1, 2018	(100,062)	(8,791)	(99,826)	10,790
Fair value profit/(loss) recognized in equity on debt instruments	(75,307)	3,025	(75,298)	49,269
Deferred tax	12,528	(481)	12,519	(7,883)
Total reserves from financial assets measured at fair value through other items of comprehensive income (2017: Reserves from available-for-sale financial assets)	**(162,841)**	**(6,247)**	**(162,605)**	**52,176**

43. Other reserves

As at 31 December 2018 and 31 December 2017, other reserves included:

	Group		**Bank**	
In RON thousand	**2018**	**2017**	**2018**	**2017**
General banking risks *(i)*	77,893	77,893	77,893	77,893
Statutory reserves *(ii)*	508,767	424,594	495,644	413,521
Total	**586,660**	**502,487**	**573,537**	**491,414**

Statutory reserves (ii)	**Group**		**Bank**	
In RON thousand	**2018**	**2017**	**2018**	**2017**
As at January 1	434,594	354,168	413,521	344,596
Profit distribution	74.173	70,426	82,123	68,925
Total	**508,767**	**424,594**	**495,644**	**413,521**

(i) The general banking risk reserve includes amounts set aside as profit reserves for future losses and other unforeseen risks or contingencies, in accordance with local banking regulations. The general banking risk reserve is allocated from the gross statutory profit at a rate of 1% applied on the balance of assets exposed to specific banking risks. The general banking risk reserve was allocated starting with financial year 2004 until the end of financial year 2006.

(ii) Statutory reserves represent accumulated transfers from retained earnings in accordance with the local banking regulations that require that 5% of the Bank’s and the subsidiaries’ net profit must be transferred to a non-distributable reserve account until the reserve reaches 20% of the Bank’s and the subsidiaries’ share capital.

Statutory reserves are not distributable to shareholders.

Notes to the separate and consolidated financial statements

44. Related-party transactions

Entities are considered to be related parties if one of them has the capacity to control the other or to exercise significant influence on the other entity's management process related to financial or operational decisions.

The Group and the Bank are engaged in transactions with related parties, shareholders and key management personnel. All these transactions were carried out under conditions similar to those applicable to third party agreements, in terms of interest rates and collateral clauses. The transactions /balances with subsidiary entities were eliminated from the scope of consolidation.

Transactions with other related parties include transactions with the major shareholders, family members of the key management personnel and companies where they are shareholders while having a relationship with the Bank.

The transactions /balances with subsidiary entities are presented below:

	2018			**2017**		
***Group** - In RON thousand*	**Key management personnel**	**Other related-parties**	**Total**	**Key management personnel**	**Other related-parties**	**Total**
Assets						
Granted loans	15,379	49,090	**64,469**	20,180	48,166	**68,346**
Liabilities						
Deposits from customers	28,826	117,494	**146,320**	26,535	114,115	**140,650**
Loans from financial institutions	-	171,921	**171,921**	-	184,802	**184,802**
Subordinated loans	-	-	**-**	-	156,682	**156,682**
Debt securities	-	490,163	**490,163**	-	21,001	**21,001**
Commitments						
Loan commitments and financial guarantees	3,363	15,208	**18,571**	2,841	48,151	**50,992**
Notional value of exchange operations	29,369	118,526	**147,895**	12,331	19,639	**31,970**
Statement of profit and loss						
Interest income	739	3,975	**4,714**	569	1,433	**2,002**
Interest expense	154	15,638	**15,792**	124	17,507	**17,631**
Fee and commission income	15	126	**141**	10	138	**148**

Notes to the separate and consolidated financial statements

44. Related-party transactions *(continued)*

***Bank** – In RON thousand*	2018				2017			
	Subsidiaries	**Key management personnel**	**Other related-parties**	**Total**	**Subsidiaries**	**Key management personnel**	**Other related-parties**	**Total**
Assets								
Correspondent accounts at credit institutions	1,167	-	-	**1,167**	-	-	-	-
Granted loans	911,634	13,281	48,360	**973,275**	744,935	17,167	47,704	**809,806**
Equity investments	121,239	-	-	**121,239**	156,631	-	-	**156,631**
Financial assets available-for-sale	-	-	-	**-**	162,294	-	-	**162,294**
Financial assets measured at fair value through other items of comprehensive income – debt instruments	4,610	-	-	**4,610**	-	-	-	**-**
Financial assets required to be measured at fair value through profit or loss - debt instruments	178,756	-	-	**178,756**	-	-	-	**-**
Other assets	1,420	-	-	**1,420**	1,827	-	-	**1,827**
Liabilities								
Deposits from customers	181,998	21,743	92,511	**296,252**	170,621	22,870	86,308	**279,799**
Loans from financial institutions	-	-	76,658	**76,658**	-	-	74,868	**74,868**
Subordinated loans	-	-	-	**-**	-	-	156,682	**156,682**
Debt securities	-	-	486,304	**486,304**	-	-	21,001	**21,001**
Other liabilities	2,875	-	-	**2,875**	1,130	-	-	**1,130**
Commitments								
Loan commitments and financial guarantees given	318,655	2,756	15,024	**336,435**	393,364	2,481	48,094	**443,939**
Loan commitments and financial guarantees received	-	-	-	**-**	33,244	-	-	**33,244**
Notional value of exchange operations	128,873	19,085	117,295	**265,253**	93,540	9,023	15,099	**117,662**

44. Related-party transactions *(continued)*

Bank – *In RON thousand* ***(continued)***	**2018**				**2017**			
	Subsidiaries	**Key management personnel**	**Other related-parties**	**Total**	**Subsidiaries**	**Key management personnel**	**Other related-parties**	**Total**
Statement of profit and loss								
Interest income	26,533	583	3,923	**31,039**	18,512	476	1,426	**20,414**
Interest expense	1,722	127	14,003	**15,852**	428	111	16,625	**17,164**
Fee and commission income	7,903	9	100	**8,012**	6,287	7	124	**6,418**
Fee and commission expense	9,094	-	-	**9,094**	9,044	-	-	**9,044**
Income from financial assets available-for-sale	-	-	-	**-**	18	-	-	**18**
Income related to financial assets measured at fair value through other items of comprehensive income	18	-	-	**18**	-	-	-	**-**
Loss from financial assets and liabilities held-for-trading	229	-	-	**229**	25	-	-	**25**
Dividend income	131,861	-	-	**131,861**	38,033	-	-	**38,033**
Other income	9,479	-	-	**9,479**	6,006	-	-	**6,006**
Other expenses	5,381	-	-	**5,381**	7,181	-	-	**7,181**

44. Related-party transactions *(continued)*

Transactions with key management personnel

During 2018, the expenses related to the fixed and variable remunerations of the members of the Board of Directors and of the Executive Management of the Group amounted to RON 33,673 thousand (2017: RON 16,654 thousand) and of the Bank amounted to RON 20,938 thousand (2017: RON 10,306 thousand).

Compensation for the key personnel of the **Group**:

In RON thousand	2018 Total	of which social security contributions	of which employer contributions to the 3rd Pension Pillar	2017 Total	of which social security contributions	of which employer contributions to the 3rd Pension Pillar
Short-term employee benefits	56,596	13,442	45	30,982	2,905	37
Bonuses upon the termination of the employment contract	8,631	1,907	-	-	-	-
Share based payments	17,922	-	-	23,003	-	-
Debt instrument-based payments	128	32	-	-	-	-
Total compensations and benefits	**83,277**	**15,381**	**45**	**53,985**	**2,905**	**37**

Compensation for the key personnel of the **Bank**:

In RON thousand	2018 Total	of which social security contributions	of which employer contributions to the 3rd Pension Pillar	2017 Total	of which social security contributions	of which employer contributions to the 3rd Pension Pillar
Short-term employee benefits	32,485	8,106	37	24,758	2,310	36
Share based payments	17,664	-	-	22,492	-	-
Total compensations and benefits	**50,149**	**8,106**	**37**	**47,250**	**2,310**	**36**

45. Commitments and contingencies

a) Commitments and contingencies

At any time the Group and the Bank have outstanding commitments to extend loans. These commitments are in the form of approved limits for credit cards and overdraft facilities. Outstanding loan commitments have a commitment period that does not extend beyond the normal underwriting and settlement period of one month to one year.

The Group provides financial guarantees and letters of credit to guarantee the performance of its customers in relation to third parties. These agreements have fixed limits and generally extend for a period of up to one year. Maturities are not concentrated in a specific period.

The contractual amounts of commitments and contingencies are set out in the following table by categories. The amounts reflected in the table under commitments are presented based on the assumption that they have been fully granted.

45. Commitments and contingencies *(continued)*
a) Commitments and contingencies (continued)

The amounts reflected in the table as guarantees and letters of credit represent the maximum accounting loss that would be recognized at the reporting date if counterparties completely failed to meet the contractual terms and conditions.

	Group		**Bank**	
In RON thousand	**2018**	**2017**	**2018**	**2017**
Guarantees issued, of which	1,716,345	1,502,392	1,701,370	1,505,162
- *Performance bonds*	*471,864*	*420,305*	*471,864*	*420,305*
- *Financial liabilities*	*1,244,481*	*1,082,087*	*1,229,506*	*1,084,857*
Loan commitments	9,189,311	6,536,656	8,809,899	6,892,924
Total	**10,905,656**	**8,039,048**	**10,511,269**	**8,398,086**

The provisions for loan commitments to customers amounted to RON 166,430 thousand, at Group level (2017: RON 65,740 thousand) and at Bank level RON 154,654 thousand (2017: RON 65,744 thousand).

Forward agreements represent contractual arrangements to buy or sell a certain financial instrument, at a certain price and at a certain future date.

Outstanding foreign currency transactions at 31 December 2018 were:

Forward transactions					
Transactions with corporate clients:					
Purchases	105,501	RON	equivalent	22,043	EUR
Transactions with banks:					
Purchases	278,107,682	RON	equivalent	58,900,000	EUR
Purchases	6,000,000	EUR	equivalent	28,207,200	RON
Purchases	58,171,929	EUR	equivalent	66,000,000	CHF
Purchases	7,000,000	EUR	equivalent	7,951,421	USD
Purchases	41,114,407	EUR	equivalent	46,500,000	CHF
Purchases	1,266,588	USD	equivalent	1,000,000	GBP

The Group and the Bank rented both property and movable assets to third parties, by means of operational lease agreements.

The minimum amounts that the Group and the Bank have to collect as a lessor in the operational lease agreements without cancellation clauses are the following:

	Group		**Bank**	
In RON thousand	**2018**	**2017**	**2018**	**2017**
< 1 year	383	56,721	2,336	1,964
1 - 5 years	831	99,772	4,917	2,866
> 5 years	-	105	239	391
Total	**1,214**	**156,598**	**7,492**	**5,221**

45. Commitments and contingencies *(continued)*

a) Commitments and contingencies (continued)

The minimum amounts that the Group and the Bank have to pay as a lessee in the operational lease agreements without cancellation clauses are the following:

	Group		Bank	
In RON thousand	**2018**	**2017**	**2018**	**2017**
< 1 year	135,738	83,933	125,257	88,285
1 - 5 years	357,229	194,430	336,388	197,509
> 5 years	34,220	34,755	32,974	34,649
Total	**527,187**	**313,118**	**494,619**	**320,443**

b) Transfer pricing and taxation

The taxation system in Romania has faced multiple changes in the recent years and is in a continuous process of update and improvement. As a consequence, the tax legislation is still subject to various interpretations. In certain cases, the tax authorities may treat certain issues in a different manner, determining the calculation of additional taxes, interest and penalties for delay (the total current rate is of 0.05% per day of delay).

In Romania the fiscal year remains open for fiscal audit for 5 years. According to the Bank's management, the tax duties included in these financial statements are appropriate.

The tax legislation in Romania considers the "market value" principle, according to which transactions between related parties must be performed at market value.

The taxpayers involved in related-party transactions must prepare and provide to the Romanian tax authorities the transfer pricing file, upon request.

The failure to provide the transfer pricing file or the submission of an incomplete transfer pricing file may lead to penalties for non-compliance; apart from the transfer pricing file, the tax authorities may interpret transactions and circumstances in a manner which is different from the management's interpretation and, consequently, may impose additional tax duties resulting from the adjustment of transfer prices.

The management of the Group and of the Bank considers that no losses should be incurred in the event of a fiscal audit for the verification of transfer prices. However, the impact of potential different interpretations of the tax authorities cannot be accurately estimated. The impact may be significant as concerns the Bank's financial position and/or operations.

46. Earnings per share

The calculation of basic earnings per share was based on the net consolidated profit attributable to ordinary shareholders of the parent company of RON 1,249,739 thousand (2017: RON 1,239,452 thousand) and on the weighted average number of ordinary shares outstanding during the year of 4,802,953,102 (2017 recalculated: 4,796,988,090 shares).

46. Earnings per share *(continued)*

The diluted earnings per share take into consideration the adjusted consolidated net profit of RON 1,252,533 thousand (2017: RON 1,242,204 thousand) attributable to the ordinary shareholders of the parent company and the weighted average number of outstanding diluted ordinary shares. The adjusted consolidated net profit was determined by adjusting the base profit with the interest paid on bonds in 2018, in amount of RON 2,794 thousand (2017: RON 2,752 thousand).

The weighted average number of diluted shares was determined as the sum of the weighted average number of ordinary shares and the number of shares which would have been issued upon the conversion of all potential dilutive shares into ordinary shares.
The weighted average of diluted shares outstanding as at 31 December 2018 was determined as a ratio between the outstanding bonds in amount of RON 46,184,903 and the conversion price of 2.5217, resulting a number of 18,314,987 shares (2017: 16,598,314 shares)

	Group	
	2018	**2017**
Ordinary shares issued as at 1 January	**4,341,439,404**	**3,646,047,792**
The impact of shares issued as of 1 January	471,041,660	695,388,387
The impact of the shares repurchased during the year	(9,527,962)	(15,489,749)
The retroactive adjustment of the weighted average number of outstanding shares as at 31 December 2018	-	471,041,660
Weighted average number of shares as at 31 December	**4,802,953,102**	**4,796,988,090**
The number of shares that may be issued upon the conversion of bonds into shares	18,314,987	16,598,314
Weighted average number of diluted shares as at 31 December	**4,821,268,089**	**4,813,586,404**

Notes to the separate and consolidated financial statements

47. Restatement of comparative figures of 2017

In accordance with IAS 1 “Presentation of Financial Statements”, if an entity has made a restatement, it is required to submit the reclassification of comparative values of the previous year.
When necessary, comparative figures have been reclassified in order to be in line with the changes from the current period presentation. These changes were made as a response to the revaluations performed by the Group’s and the Bank’s management for the most accurate presentation thereof.
The Bank's management has taken into account the nature of the abovementioned restatements, and, in particular, the fact that it is limited to the reclassification of financial position items, with no impact on total assets, total liabilities and shareholders’ equity, as well as the reclassification of cash flow and equity items.
In order to facilitate the understanding of these financial statements, the table below lists the reported figures, reclassifications and adjusted values in the consolidated and separate statement of financial position, the consolidated and separate statement of cash flows and the consolidated and separate statement of equity.

i) The restatement of the comparative figures of the consolidated and separate statement of financial position is presented below:

RON thousand **- 31 December 2017**	**Group**			**Bank**		
Description	**Reported statement of financial position**	**Reclassification**	**Adjusted statement of financial position**	**Reported statement of financial position**	**Reclassification**	**Adjusted statement of financial position**
Assets:						
a) Placements with banks	5,348,074	(222,792)	5,125,282	5,302,292	(222,792)	5,079,500
b) Loans and advances to customers	29,463,632	(176,746)	29,286,886	29,914,039	(176,746)	29,737,293
c) Financial assets at amortized cost - debt instruments	-	222,792	222,792	-	222,792	222,792
d) Other financial assets	234,317	176,746	411,063	211,913	176,746	388,659
Total assets	**35,046,023**	**-**	**35,046,023**	**35,428,244**	**-**	**35,428,244**
Liabilities:						
(e) Other financial liabilities	1,184,210	38,022	1,222,232	1,142,938	149	1,143,087
(f) Other non-financial liabilities	104,028	(38,022)	66,006	62,425	(149)	62,276
Total liabilities	**1,288,238**	**-**	**1,288,238**	**1,205,363**	**-**	**1,205,363**

47. Restatement of comparative figures of 2017 *(continued)*

In 2018, the Group and the Bank made the following reclassifications which impacted the comparative figures of the financial position of 2017:

1. In the "**Assets"** category:
- The debt instruments at amortized cost were presented in detail, into separate lines, from the item "Placements with banks" (a) to the item "Financial assets measured at amortized cost - debt instruments" (c);
- The amounts resulting from the non-recourse factoring contracts have been reclassified from the item "Loans and advances to customers" (b) into item "Other financial assets" (d)

2. In the "**Liabilities"** category:
- The *settlement accounts for securities operations - Client accounts* have been reclassified from the item "Other non-financial liabilities" (f) into item "Other financial liabilities" (e)

ii) The restatement of the comparative figures for the Statement of Profit and Loss for 2017 is presented below:

	Group			Bank		
Description	**Reported profit and loss account**	**Adjustments**	**Adjusted profit and loss account**	**Reported profit and loss account**	**Adjustments**	**Adjusted profit and loss account**
a) Fee and commission expense	(117,516)	(26,284)	(143,800)	(123,621)	(26,284)	(149,905)
Net fee and commission income	626,797	(26,284)	600,513	580,950	(26,284)	554,666
Operating income	**2,916,876**	**(26,284)**	**2,890,592**	**2,675,464**	**(26,284)**	**2,649,180**
b) Other operating expenses	(556,782)	26,284	(530,498)	(492,821)	26,284	(466,537)
Operating expenses	**(1,474,254)**	**26,284**	**(1,447,970)**	**(1,296,964)**	**26,284**	**(1,270,680)**

In 2018, the Group and the Bank made the following reclassifications which impacted the comparative figures of the statement of profit or loss of 2017:

1. In the category "Fee and commission expense" (a):

Other fee and commissions expenses were reclassified from the category "Other operating expenses" (b) into the category "Fee and commission expense" (a)

2. In the category "Other operating expenses" (b):

Other fee and commissions expenses were reclassified from the category "Other operating expenses" (b) into the category "Fee and commission expense" (a)

47. Restatement of comparative figures of 2017 *(continued)*

iii) The restatement of the comparative figures of the consolidated and separate statement of cash flows is presented below:

RON thousand - **31 December 2017**		**Group**			**Bank**	
Description	**Reported statement of cash flows**	**Reclassifications / Adjustments**	**Adjusted statement of cash flows**	**Reported statement of cash flows**	**Reclassifications / Adjustments**	**Adjusted statement of cash flows**
Profit for the year	**1,242,268**	**-**	**1,242,268**	**1,185,979**	**-**	**1,185,979**
Adjustments for:						
Change in loans and advances	(3,164,909)	(99,591)	(3,264,500)	(3,062,906)	(99,591)	(3,162,497)
Change in other financial assets	166,747	99,591	266,338	172,993	99,591	272,584
Net cash flow from operating activities	**4,567,980**	**-**	**4,567,980**	**4,808,377**	**-**	**4,808,377**

In 2018, the Group and the Bank made the following reclassifications which impacted the comparative figures of the Consolidated and separate statement of cash flows of 2017:

- Reclassification of the receivables from non-recourse factoring from the item "Loans and advances to customers" into item "Other financial assets".

iii) The comparative figures of own funds for the Group and for the Bank after the approval of dividend distribution by the General Meeting of Shareholders dated 25 April 2018 are presented below:

RON thousand - **31 December 2017**		**Group**			**Bank**	
Description	**Reported own funds**	**Adjustments**	**Adjusted own funds**	**Reported own funds**	**Adjustments**	**Adjusted own funds**
Tier 1 capital	6,682,389	(610,000)	6,072,389	6,512,912	(610,000)	5,902,912
Tier 2 capital	310,496	-	310,496	310,496	-	310,496
Total own funds	**6,992,885**	**(610.00)**	**6,382,885**	**6,823,408**	**(610,000)**	**6,213,408**

As a result of the approval of the 2017 Financial statements, the General Meeting of Shareholders of 25 April 2018 approved the distribution of cash dividends to the shareholders in amount of RON 610,000 thousand. This amount generated the adjustment of own funds for the year 2017, both at separate, as well as at consolidated level, in accordance with legal provisions, subsequent to the publishing of the Consolidated and separate financial statements for 2017.

Notes to the separate and consolidated financial statements

48. Derivatives

The structure of the derivative instruments held by the **Group** and by the **Bank** as at **31 December 2018** is the following:

	Group			Bank		
In RON thousand	**Fair value of Assets**	**Fair value Liabilities**	**Notional**	**Fair value of Assets**	**Fair value Liabilities**	**Notional**
Interest rate swaps	409	594	187,654	409	594	187,654
Currency swaps	-	-	-	-	-	-
Exchange rate forward agreements	2,657	3,632	803,658	2,657	3,632	803,658
Total derivative financial instruments	**3,066**	**4,226**	**991,312**	**3,066**	**4,226**	**991,312**

The structure of the derivative instruments held by the **Group** and by the **Bank** as at **31 December 2017** is the following:

	Group			Bank		
In RON thousand	**Fair value of Assets**	**Fair value Liabilities**	**Notional**	**Fair value of Assets**	**Fair value Liabilities**	**Notional**
Interest rate swaps	124	53	54,272	124	53	54,272
Currency swaps	8,523	8,432	220,600	8,523	8,432	220,600
Exchange rate forward agreements	1,207	3,421	485,858	1,207	3,421	485,858
Total derivative financial instruments	**9,854**	**11,906**	**760,730**	**9,854**	**11,906**	**760,730**

Forward agreements

Forward agreements represent contractual arrangements to buy or sell a certain financial instrument, at a certain price and at a certain future date. Forward agreements are customized contracts traded on an unregulated market.

Swap agreements

Swaps are contracts between two parties to exchange cash flows over time based on the specified notional amounts. Swaps can be linked to interest rates, stock indices, foreign exchange rates, etc.

Interest rate swaps are contracts that the Group and the Bank sign with other financial institutions, by which the Group and the Bank either receive or pay a variable interest rate in exchange for a fixed interest rate. Payment flows are usually set off, the remaining amount being paid only by one of the parties.

As concerns exchange rate swaps, the Group and the Bank pay a certain amount in a specific currency and receive a specific amount in another currency. Exchange rate swaps are settled on a mutual basis in most of the cases.

49. Reconciliation of liabilities resulting from financial activities

The changes of the liabilities resulting from the Group's financial activities carried out in 2018 and 2017 are presented below:

Group 2018 - In RON thousand	01 January 2018	Cash flow	Non-monetary changes Registration of receivables taken over from Victoriabank	Foreign exchange variation	31 December 2018
Long-term loans	1,639,621	1,431,831	29,376	11,231	3,112,059

Group 2017 - In RON thousand	01 January 2017	Cash flow	Foreign exchange variation	31 December 2017
Long-term loans	1,241,821	388,637	9,163	1,639,621

The changes of the liabilities resulting from the Bank's financial activities carried out in 2018 and 2017 are presented below:

Group 2018 - In RON thousand	01 January 2018	Cash flow	Foreign exchange variation	31 December 2018
Long-term loans	1,251,675	1,330,270	11,386	2,593,331

Bank 2017 - In RON thousand	01 January 2017	Cash flow	Foreign exchange variation	31 December 2017
Long-term loans	1,183,293	60,639	7,743	1,251,675

50. Acquisition of Bancpost S.A., ERB Leasing IFN S.A., ERB Retail IFN S.A.

On 24 November 2017, Banca Transilvania S.A. signed the sale and purchase agreement for the acquisition of the majority stake (99.14675%) held by Eurobank Group in the share capital of Bancpost S.A., whereby Banca Transilvania S.A. acquired the entire stake of Eurobank Group. According to the transaction, Banca Transilvania S.A. acquired the full equity stakes of other subsidiaries of Eurobank Group subsidiaries located in Romania, notably ERB Retail Services IFN S.A. and ERB Leasing IFN S.A.
During the subsequent period, the necessary approvals for the closing of the transaction were obtained from the Competition Council (No Objection Decision no. 7 dated 12 March 2018 regarding the concentration operation through the acquisition of sole control of Bancpost S.A., ERB Retail Services IFN S.A and ERB Leasing IFN S.A) and from the National Bank of Romania (No Objection Letter dated 12 March 2018 based on the documentation submitted by Banca Transilvania S.A pursuant to the requirements laid down in Regulation No. 6 of 7 April 2008 on commencement of activity and changes in the situation of credit institutions, Romanian legal entities, and of branches in Romania of third-country credit institutions). The Bank took control over these entities on 3 April 2018, the date at which the consideration was transferred in exchange of the stake held by the Eurobank Group.

During the nine-month period until 31 December 2018 (actual merger date), Bancpost S.A. together with the other two acquired entities had a contribution of RON 13.97 million to the Group's profit. If the acquisition had taken place on 1 January 2018, the management estimates that the contribution to the consolidated profit would have been of 22.4 million RON. This estimation is based on the assumption that preliminary fair value adjustments registered on the acquisition date would have been the same if the acquisition had taken place on 1 January 2018.

50. Acquisition of Bancpost S.A., ERB Leasing IFN S.A., ERB Retail IFN S.A. *(continued)*

Consideration transferred

The fair value of the consideration transferred is of RON 1,051,426 thousand and was fully paid at the date of the acquisition and of the control takeover, i.e. 3 April 2018. The clauses in the sale and purchase agreement regarding the consideration stipulate the determination of certain potential adjustments thereof, based on an audit report issued for the level of the net assets at the acquisition closing date. Following this commitment, mutually assumed by the sellers and the purchaser, the jointly appointed auditor completed the analysis by the date of the financial statements, thus determining the level of the consideration to RON 980,281 thousand.

Assets acquired and liabilities assumed

The table below summarizes the amounts recognized at the acquisition date in relation to the assets acquired and the liabilities assumed:

In RON million	**Carrying amount**	**Adjustments**	**Fair value**
Cash, cash equivalents and placements with banks	2,602,995	45	2,603,040
Securities	1,588,802	(2,641)	1,586,161
Loans and advances to customers	5,825,763	(157,596)	5,668,167
Finance lease receivables	62,050	8,463	70,513
Property and equipment and intangible assets	140,185	(24,486)	115,699
Other assets	136,508	46,994	183,502
Deposits from banks	(47,467)	-	(47,467)
Deposits from customers	(8,328,807)	2,076	(8,326,731)
Loans from banks	(140,448)	-	(140,448)
Other liabilities	(582,575)	(4,853)	(587,428)
Total net assets acquired	**1,257,006**	**(131,998)**	**1,125,008**

Bargain gain

The Group's profit for the period ended 31 December 2018 includes the bargain gain resulting from the acquisition of Bancpost S.A., ERB Retail Services IFN S.A. and ERB Leasing IFN S.A, in amount of RON 138,393 thousand.

The bargain gain was determined as a difference between the final consideration (RON 980,281 thd.) and the share of the fair value of assets and liabilities of Bancpost S.A., ERB Retail Services IFN S.A. and ERB Leasing IFN S.A. held by the Bank at the date when the control was acquired (in amount of RON 1,118,674 thd.).

50. Acquisition of Bancpost S.A., ERB Leasing IFN S.A., ERB Retail IFN S.A. *(continued)*

Costs related to the acquisition and integration of Bancpost S.A., ERB Leasing IFN S.A., ERB Retail Services IFN S.A.

The costs related to the acquisition are the costs incurred by the Group with the business combination. These costs include: costs of intermediation, advisory, legal, accounting, valuation and other professional or consulting services, as well as general administrative costs generated within the integration process.

The costs related to the acquisition and integration of Bancpost S.A., ERB Leasing IFN S.A., ERB Retail IFN S.A. amounted to RON 234,099 thousand, amounts that are included in the Profit and Loss Account under "Other operating expenses" and "Personnel expenses". The integration costs for the period 2019-2020 are estimated to RON 41,390 thousand.

Issue of equity instruments following the approval of the merger

In accordance with the provisions in Article 239 in Law No. 31/1990 on companies, as republished and subsequently amended and supplemented ("Company Law"), the initiation of the merger between Banca Transilvania S.A and Bancpost S.A was, in principle, approved by the Extraordinary General Meetings of Shareholders of both companies participating in the merger, as competent statutory bodies: EGMS Decision of Bancpost S.A dated 30.04.2018 and EGMS Decision of Banca Transilvania S.A dated 25.04.2018.

In accordance with the provisions in Article 250(1)(b) in the Company Law, the shareholders of the absorbed entity become shareholders of the absorbing company, i.e. of the beneficiary companies, pursuant to the allocation rules established in the merger project. Based on the merge project and following the approval of the merger (through the EGMS Decision of Banca Transilvania S.A dated 16.10.2018 and the EGMS Decision of Bancpost S.A dated 19.10.2018), the shareholders of Banca Transilvania S.A. decided: the dissolution without liquidation of Bancpost S.A, the universal transfer of its patrimony to Banca Transilvania S.A, the conversion of the Bancpost S.A shares held by minority shareholders into TLV shares (reference date 1.10.2018 and at an exchange rate of 0.1169 TLV shares for one Bancpost share), the increase of the share capital of the absorbing entity by RON 2,602,278 through the issue of TLV shares with a nominal value of RON 1/share and the approval of the merger premium of RON 3,736,593.57. The merger premium is reflected under the balance-sheet position "Other reserves".

No equity instruments have been issued as part of the acquisition of ERB Leasing IFN S.A., ERB Retail IFN S.A..

As regards the leasing subsidiaries the Merger Project between BT Leasing Transilvania IFN S.A. and ERB Leasing IFN S.A. dated 4 July 2018 was approved on 5 July 2018, whereby ERB Leasing IFN S.A., as absorbed entity will merge with S.C. BT Leasing Transilvania IFN S.A., as absorbing entity.

The EGMS of 17 August 2018 approved the merger by absorption between BT Leasing Transilvania IFN S.A. (as absorbing entity) and ERB LEASING IFN S.A. (as absorbed entity) in accordance with the Merger Project prepared on July 4, 2018 and published in Romania's Official Gazette on July 16, 2018, the merger resulting in the transfer of all the movable and immovable assets, all the assets and liabilities, contracts and right and obligations of the absorbed entity to BT Leasing Transilvania IFN S.A. The two entities became one entity starting with 12 October 2018, representing the effective merger date and the date at which ERB Leasing IFN S.A was dissolved.

51. Acquisition of Victoriabank S.A.

In November 2017, Banca Transilvania S.A. announced its initiative to invest in the Republic of Moldova and received in the following period the acquisition approval from the Romanian and Moldovan supervisory authorities - the National Bank of Romania, the National Bank of Moldova and the Competition Council of the Republic of Moldova.

On 19 January 2018, Banca Transilvania S.A. became a shareholder of Victoriabank S.A., the third largest bank in the Republic of Moldova, holding together with the EBRD a stake of more than 66% in this financial institution.

Between 14 February and 24 April 2018, Banca Transilvania S.A. made a mandatory public offering to take over the securities issued by Victoriabank S.A., in accordance with the Moldovan capital market legislation; the offering was addressed exclusively to the current minority shareholders of Victoriabank S.A.

The objective of the tender offer was the acquisition of the remaining 8,308,673 shares issued by Victoriabank S.A., representing 33.23% of the total number of nominal ordinary shares with voting rights, in accordance with the approval of the National Commission for Financial Markets in the Republic of Moldova.

After the completion of the public offering and the appointment of the representatives of the new shareholder in the management committee and the Board of Directors of Victoriabank S.A., Banca Transilvania took control of the bank starting from April 2018.

During the nine-month period until 31 December 2018, Victoriabank S.A. had a contribution of RON 8.69 million to the profit of the Group. If the acquisition had taken place on January 1, 2018, the management estimates that the contribution to the profit of the parent company would have been an additional RON 8.25 million. This estimation is based on the assumption that preliminary fair value adjustments registered on the acquisition date would have been the same if the acquisition had taken place on January 1, 2018.

Consideration transferred

The fair value of the consideration transferred is of RON 194,700 thousand and was fully paid at the acquisition date or during the public offering.

Assets acquired and liabilities assumed

The table below summarizes the amounts recognized at the acquisition date in relation to the assets acquired and the liabilities assumed (prior to the assignment of the outstanding balances related to the former shareholders' financing facilities):

In RON million	**Carrying amount**	**Adjustments**	**Fair value**
Cash, cash equivalents and placements with banks	1,624,986	(52,903)	1,572,083
Securities	945,246	(4,690)	940,556
Loans and advances to customers	725,942	(34,097)	691,845
Property and equipment and intangible assets	91,236	(1,392)	89,844
Other assets	49,603	(7,895)	41,708
Deposits from banks	(8,031)	-	(8,031)
Deposits from customers	(2,606,853)	-	(2,606,853)
Loans from banks	(28,586)	-	(28,586)
Other liabilities	(206,689)	(992)	(207,681)
Total net assets acquired	**586,854**	**(101,969)**	**484,885**

51. Acquisition of *Victoriabank S.A.* (continued)

Bargain gain

The Group's profit for the period ended 31 December 2018 includes the bargain gain resulting from the acquisition of Victoriabank S.A., amounting to RON 21,285 thousand.

The bargain gain was determined as stake percentage applied to the difference between the consideration transferred (share acquisition price of RON 194,700 thd.) and the fair value of assets and liabilities of Victoriabank S.A. at the control takeover date (in amount of RON 484,885 thd.).

52. Events subsequent to the date of the consolidated statement of financial position

There were no subsequent events after the date of the consolidated and separate financial statements that could have significant impact on the Bank and the Group for the 2018 financial year.

The financial statements were approved by the Board of Directors on 21 March 2019 and were signed on behalf of the Board.

53. Accounting policies applicable before January 1, 2018

The accounting policies applicable to the comparative period ended 31 December 2017, as amended by IFRS 9, are:

a) Net loss / gain from the sale of available-for-sale assets

Net loss/gain from the sale of available-for-sale assets includes gains and losses from the sale of available-for-sale assets and the gain from the from the disposal of own equity instruments valued at cost. Net gain and loss from the sale of available-for-sale assets are recognized in the income statement at the moment of selling the available-for-sale financial instruments. They represent the difference between the sale price and the amortized cost of the financial assets classified as available-for-sale.

b) Financial assets and liabilities

(i) Classification

The Group and the Bank classify their financial assets and liabilities in the following categories:

Financial assets and liabilities at fair value through profit and loss. This category has two sub-categories: financial assets or financial liabilities held for trading, and financial assets designated at fair value through profit or loss at initial recognition.
A financial instrument is classified in this category if acquired mainly for the purpose of sale or if so designated by the management.

In the separate and consolidated Statement of Financial Position, the category "Financial assets at fair value through profit and loss" comprises listed shares held by the Group and the Bank.

Derivatives are categorized as held-for-trading unless they are designated as a hedging instrument proven to be efficient in terms of risk coverage.

53. Accounting policies applicable before January 01, 2018 *(continued)*

b) Financial assets and liabilities *(continued)*

(i) Classification (continued)

Loans and receivables are financial assets with fixed or determinable payments which are not quoted on an active market, other than those that the Group and the Bank intend to sell immediately or in the near future, those that the Group and the Bank, upon initial recognition, designate at fair value through profit or loss, those that the Group and the Bank, upon initial recognition, designate as available-for-sale or those for which the holder may not recover substantially all of its initial investment, for reasons other than credit deterioration. Loans and receivables comprise loans and advances to banks and customers and lease investments.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group and the Bank have the positive intention and ability to hold to maturity.

Available-for-sale financial assets are those financial assets that are designated as available-for-sale or are not classified as loans and advances, held-to-maturity investments or financial assets at fair value through profit or loss. Available-for-sale assets include treasury bonds and other bonds eligible for discounting with central banks, investments in unit funds and shares, and other securities which are not available-for-trading or held-to-maturity.

Financial assets are valued at cost equity instruments for which there is no active market for identical instruments and their fair value cannot be reliably determined. Bank classified in this category participations in subsidiaries in its separate financial statements and securities portfolio activity.

The Group's and the Bank's accounting policies initially classify the assets and liabilities into different categories depending on certain circumstances:

- In classifying financial assets or liabilities as "trading", the Group and the Bank have determined that it meets the description of trading assets and liabilities set out in accounting policies;
- In classifying financial assets as "held-to-maturity", the Group and the Bank have determined that it has both the positive intention and ability to hold the assets until their maturity date as required by its accounting policy.

If the Group and the Bank fail to keep these investments to maturity other than for the specific circumstances mentioned in IAS 39, they will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value not amortized cost. Investments would, thus, be evaluated la fair value and nu at amortized cost. If the entire class of held-to-maturity investments is tainted, the fair value would not be significantly different from the carrying amount.

(ii) Recognition

Financial assets and financial liabilities are initially recognized at fair value plus directly attributable transaction costs, in case of financial assets and financial liabilities other than those stated at fair value through profit or loss.

The Group and the Bank initially recognize available-for-sale financial assets at the date of their origination and all other financial assets and liabilities are initially recognized at the trading date at which the Group and the Bank became a party to the contractual provisions of the financial instrument.

53. Accounting policies applicable before January 01, 2018 *(continued)*

b) Financial assets and liabilities *(continued)*

(iii) Derecognition

The Group and the Bank derecognize a financial asset when the contractual rights to the cash flows resulting from the respective asset expire, or when the Group and the Bank transfer the rights to receive the contractual cash flows related to the financial asset within a transaction in which all the risks and benefits of ownership of the financial asset are substantially transferred. Any interest in the transferred financial assets created or retained by the Group and the Bank are recognized as a separate asset or liability.

Upon derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the transferred portion of the asset), and the sum of (1) the consideration received (including any new asset obtained less any new liability assumed) and (2) any cumulative gain or loss that would be recognized in other comprehensive income, is recognized in the income statement.

The Group and the Bank derecognize a financial liability when its contractual settled obligations are cancelled or expire.

The Group and the Bank enter into transactions whereby they transfer assets recognized on the consolidated financial position, but they retain either all risks or rewards of the transferred assets or a portion thereof. If all or a substantial portion of risks and rewards are retained, then the transferred assets are not derecognized from the consolidated and separate financial position.

Transfers of assets with retention of all risks and rewards or of a substantial portion thereof include, for example, securities lending and repurchase transactions.

When assets are sold to a third party with a total rate of return swap on the transferred assets, the transaction is accounted for as a secured financial transaction similar to repurchase transactions. In transactions where the Group and the Bank neither retain nor transfer substantially the risks and rewards arising from the ownership of a financial asset, the asset is derecognized if control over such asset is lost.

The rights and obligations retained in the transfer are recognized separately as assets and liabilities, as appropriate. In transfers where control over the asset is retained, the Group and the Bank continue to recognize the asset to the extent of their continuing involvement, determined by the extent to which they are exposed to changes in the value of the transferred asset.

(iv) Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated and separate statement of financial position when and only when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle them on a net basis, or to realize the asset and clear the liability simultaneously. In 2018 and 2017 no off-setting was required.

Incomes and expenses are presented on a net basis only when permitted by the accounting standards, or as profit and loss arising from a group of similar transactions, such as in the Group's and the Bank's trading activity.

(v) Amortized cost measurement

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured upon initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, less any reduction for impairments on assets.

53. Accounting policies applicable before January 01, 2018 *(continued)*

b) Financial assets and liabilities *(continued)*

(vi) Fair value measurement

Fair value is the price that would be received after the sale of an asset or the price paid to transfer a liability in an orderly transaction between market participants at the measurement date, in principal, or, in its absence, the price on the most advantageous market to which the Group and the Bank have access at the respective date. The fair value of liability reflects its non-performance risk.

When available, the Group and the Bank measure the fair value of an instrument using the quoted price on an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price on an active market, then the Group and the Bank use valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

The selected valuation technique incorporates all of the factors that market participants would take into account when pricing a transaction.

The best evidence of fair value of a financial instrument upon initial recognition is normally the transaction price – the fair value of a consideration given or received. If the Group and the Bank determine that the fair value upon initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price on an active market for an identical asset or liability, nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value upon initial recognition and the transaction price.

Subsequently, that difference is recognized in the income statement on an appropriate basis over the life period of an instrument, but no later than when the valuation is wholly supported by observable market data or the transaction is closed.
The Group and the Bank recognize the transfers between hierarchical fair value levels at the end of the reporting period during which the change has occurred.

(vii) Identification and measurement of impairment

At each date of the consolidated and separate statement of financial position, the Group and the Bank assess whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired.
A financial asset or a group of financial assets is impaired only if there is objective evidence regarding its impairment as a result of one or more events occurred after the initial recognition ("loss generating event"), and the loss generating event(s) has an impact on the future cash flows of the asset that can be estimated reliably.

It is probable that the identification of a single event responsible for the impairment may be difficult. Impairment may have been caused by the combined effect of multiple events. The expected losses as a result of future events, regardless of their probability, are not recognized.

If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the updated value of estimated future cash flows discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition).

53. Accounting policies applicable before January 01, 2018 *(continued)*

b) Financial assets and liabilities *(continued)*

(vii) Identification and measurement of impairment (continued)

If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current variable interest rate, specified in the contract. The asset's accounting value can be decreased directly or by using an impairment account. The expense with impairment losses is recognized in the statement of profit or loss.

If during a future period, an event that took place after the date of impairment recognition generates a decrease in the impairment expense, the formerly recognized impairment loss is restated either directly or through the adjustment of an impairment account. The impairment decrease is recognized in the statement of profit or loss.

Loans and advances to customers and finance lease receivables

The Group and the Bank, based on their internal methodology for impairment assessment, have included information on the following loss events, as objective evidence for the impairment of loans and advances to customers or groups of customers and finance lease:

a) significant financial difficulty of the borrower (lessee) determined in accordance with the Group's and the Bank's internal rating system;
b) a breach of contract, such as a default or delay in interest or principal payments (individually and in the same group of borrowers);
c) the lender, due to economic or legal reasons relating to the borrower's or the lessee's financial difficulty, grants to the borrower certain concessions that the lender would not have otherwise considered, such as rescheduling the interest or principal payments;
d) there are indications that the borrower will enter bankruptcy or other financial reorganization;
e) credible information indicating a measurable decrease in the estimated future cash flows of a group of financial assets, starting from the date of initial recognition, although the decrease cannot be identified for each individual asset, including:

- unfavorable change in the payment behavior of the Group's debtors, or
- national or local economic circumstances that can be correlated with the loss/depreciation of the Group's and Bank's assets.

The Group and the Bank assess whether objective evidence of impairment exists as described above, individually for loans to customers or finance lease receivables that are individually significant, and individually or collectively for loans to customers or finance lease receivables that are not individually significant.
If the Group and the Bank determine that no objective evidence of impairment exists, as presented above, with respect to an individually assessed financial asset, whether significant or not, they shall include the loans to customers and finance lease into a group with similar credit risk characteristics and shall collectively assess them for impairment. The loans and receivables from finance lease granted to clients, which are individually assessed and for which an individual impairment allowance is recognized or continues to be recognized, are no longer included in the groups with similar credit risk characteristics under the collective assessment.
The calculation of the present value of the future cash flows of a collateralized loan and receivables from financial leasing contracts reflects the cash flows that may result from foreclosure, less the costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective assessment of impairment, loans and advances to customers and finance lease receivables are grouped on the basis of similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due, according to the contractual terms (for example, grouping based on separate lines of business, type of loan, currency, maturity, debt service and so on).

53. Accounting policies applicable before January 01, 2018 *(continued)*

b) Financial assets and liabilities *(continued)*

(vii) Identification and measurement of impairment (continued)

The management considers that these selected characteristics are the best estimates of credit risk features, being relevant for the estimation of future cash flows for groups of such loans and finance lease receivables, and being indicative of the debtors' ability to pay all amounts due according to the contractual terms.
Future cash flows in a group of loans and advances to customers and finance lease receivables collectively evaluated for impairment are estimated on the basis of historical loss experience related to loans and finance lease receivables with credit risk characteristics similar to those of the Group and of the Bank.

Historical loss is adjusted on the basis of current observable data in order to reflect the effects of current conditions that did not affect the period on which the historical loss was calculated and to remove the effects of conditions in the historical period that do no longer apply.

The Group and the Bank regularly review the methodology and assumptions used to estimate future cash flows to reduce differences between estimated and actual losses.

Financial assets available-for-sale

For the financial assets classified as available-for-sale, when a decline in the fair value of an available-for-sale financial asset has been recognized directly in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that has been recognized directly in other comprehensive income shall be restated directly from other comprehensive income and recognized in profit or loss even though the financial asset has not been derecognized yet.

The amount of the cumulative loss that is released from other comprehensive income and recognized in profit or loss shall be the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in income statement. Impairment losses recognized in the income statement as an investment in an instrument available-for-sale shall not be restated through profit or loss.
If, in a subsequent period, the fair value of an available-for-sale asset increases and the increase can be objectively related to an event occurring after the impairment loss had been recognized in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognized in result of the period.

Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unlisted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to or is to be settled by delivery of such an unlisted instrument, the amount of impairment loss is measured as the difference between the carrying amount of the financial asset and the updated value of estimated future cash flows by using the current market rate of return for a similar financial asset. Such impairment losses are not restated in the income statement.

53. Accounting policies applicable before January 01, 2018 *(continued)*

b) Financial assets and liabilities *(continued)*

Financial assets carried at cost **(continued)**

The Group and the Bank designate financial assets and liabilities at fair value through profit and loss when:

- they eliminate or reduce significantly an evaluation or recognition mismatch ("accounting error") which might have arisen from the measurement of the assets and liabilities or from the recognition of their gain or loss based on different principles;
- they are part of a group of financial assets or liabilities managed, evaluated and reported to the management on a fair value basis according to the risk management documentation /investment strategy; or
- they are hybrid contracts through which an entity can reflect the entire contract at fair value through profit or loss.

Horia Ciorcilă	George Călinescu
Chairman	*Deputy CEO*