



Banca Comercială Română S.A.
Societate administrată în sistem dualist

Bd. Regina Elisabeta nr. 5,
Sector 3, București, cod 030016

contact.center@bcr.ro
www.bcr.ro
InfoBCR: 0800.801.227, apelabil
gratuit din orice rețea națională;
+4021.407.42.00 apelabil din
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Înmatriculată la Registrul
Comerțului: J40/90/1991
Înmatriculată la Registrul Bancar
Nr. RB-PJR-40-008/18.02.1999
Cod Unic de Înregistrare: RO 361757

Înregistrată la Registrul de evidență
a prelucrărilor de date cu caracter
personal sub nr. 3776 și 3772
Capital Social: 1.625.341.625 lei
SWIFT: RNCB RO BU

STATEMENT

According to the articles 30 and 31 of the Accounting Law no. 82/1991

The "Separate and Consolidated Financial Statements" as at December 31st, 2017 for the Group Banca Comerciala Romana (the Group) and for the bank individually (Bank) have been prepared in accordance with National Bank of Romania Order no. 27/2010 for the approval of the Accounting Regulations compliant to International Financial Reporting Standards, applicable to credit institutions, as subsequently amended and supplemented.

We, Sergiu Cristian MANEA as Executive President and Dana Luciana DEMETRIAN as Executive Vicepresident of Banca Comerciala Romana SA, undertake the responsibility for the preparation of the Separate and Consolidated Financial Statements as at 31.12.2017 and we confirm the following:

- a) The accounting policies applied for the preparation of the separate and consolidated financial statements for the year ended 2017 are in accordance with accounting regulations applicable to credit institutions, correspondingly in accordance with the NBR's Order no. 27/2010;
- b) The Annual Separate and Consolidated Financial Statements reflect a true and fair view of the financial position, financial performance and further information related to the activity of the Bank and the Group;
- c) Banca Comerciala Romana SA prepared its Financial Statements and carry on their business under conditions of continuity.

Executive President,
Sergiu Cristian MANEA

Executive Vicepresident,
Dana Luciana DEMETRIAN

***INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF BANCA COMERCIALĂ ROMANĂ SA***

Report on the audit of the financial statements

Our opinion

In our opinion:

- the consolidated financial statements of Banca Comercială Română S.A. (the “Bank”) and its subsidiaries (together the “Group”) give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS) and National Bank of Romania Order 27/2010, as subsequently amended (“NBR Order 27/2010”); and
- the separate financial statements of the Bank give a true and fair view the financial position of the Bank as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with IFRS and NBR Order 27/2010.

Our opinion is consistent with our additional report to the Bank’s Audit Committee.

What we have audited

The Group’s consolidated financial statements and the Bank’s separate financial statements (collectively the “financial statements”), set out on pages 1 to 152, comprise:

- the consolidated and separate statements of financial position as at 31 December 2017;
- the consolidated and separate statements of comprehensive income for the year then ended;
- the consolidated and separate statements of changes in equity for the year then ended;
- the consolidated and separate statements of cash flows for the year then ended; and
- the notes to the consolidated and separate financial statements, which include significant accounting policies and other explanatory information.

The consolidated financial statements as at 31 December 2017 are identified as follows:

- Total equity and reserves: RON 7,439,113 thousands;
- Net profit for the year: RON 668,127 thousands.

The separate financial statements as at 31 December 2017 are identified as follows:

- Total equity and reserves: RON 7,444,657 thousands;
- Net profit for the year: RON 570,310 thousands.

The Bank's registered office is in Bd. Regina Elisabeta nr. 5, sector 3, Bucuresti, Romania and the Bank's unique fiscal registration code is RO361757.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs), Regulation EU No 537/2014 of the European Parliament and of the Council ("the Regulation") and Law 162/2017 ("the Law"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group and the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the financial statements in Romania, including the Regulation and the Law and we have fulfilled the ethical responsibilities in accordance with these requirements and IESBA Code.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Group and the Bank are in accordance with the applicable law and regulations in Romania and that we have not provided non-audit services that are prohibited under Article 5(1) of the EU Regulation no. 537/2014.

The non-audit services that we have provided to the Group and the Bank, in the period from 1 January 2017 to 31 December 2017, are disclosed in Note 43 to the financial statements.

Our audit approach

Overview



Overall materiality:

RON 43,620 thousands for both consolidated and separate financial statements.

Group scoping:

We planned and scoped our audit for 2017 reflecting the Group's current structure whereby the Bank represents a very significant part of the Group's assets, liabilities, revenue and profit before tax. Hence we defined the Bank as the sole significant component within the Group and so it was subject to a full scope audit of its financial information.

Key audit matters:

- Impairment of loans and advances to customers (including IFRS 9 transition);
- Litigation provisions for allegedly abusive clauses in loan contracts;
- Tax matters resulting from the tax inspection performed by the Romanian Tax Authorities; and
- Non-current tax asset resulting the fiscal treatment of impairment of subsidiaries.

These Key Audit Matters were considered key for both the audit of the consolidated and separate financial statements.

Group scoping

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where Management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated and separate financial statements as a whole, taking into account the structure of the Group and of the Bank, the accounting processes and controls, and the industry in which the Group and the Bank operate.

We planned and scoped our audit for 2017 reflecting the Group's current structure whereby the Bank represents the vast majority of the Group's assets (95%+), liabilities (95%+), operating income (94%+) and profit before tax (89%+). Hence, we defined the Bank as the sole significant component within the Group and so the Bank was subject to an audit of its complete financial information.

2017 was the first year we were appointed as auditors of the Bank. We commenced our preparation for the audit take-over already in summer 2016 in order to ensure that we fulfil all the independence requirements imposed upon us as incoming auditors of the Group.

Since our appointment on 27 January 2017, we used the opportunity to meet with key members of the Management of the Bank in order to obtain understanding of current business matters and to gather information that would enable us to plan our audit. We also held hand-over meetings with the prior year auditors and reviewed their working papers in order to understand on which controls they relied and what evidence they used to support their opinion. We used our information technology specialists to map the information and control systems of the Bank, and to help assess the overall control environment. These activities facilitated planning and performing the audit.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

| | |
|--|---|
| Overall Bank materiality | RON 43,620 thousands |
| How we determined it | Approximately 5% of profit before tax per the (consolidated and separate) statement of comprehensive income for the year ended 31 December 2017. |
| Rationale for the materiality benchmark applied | We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group and the Bank is most commonly measured by its stakeholders, and it is a generally accepted benchmark. We chose 5%, which in our experience is an acceptable quantitative materiality threshold for this benchmark. |

We agreed with the Audit Committee we would report to them misstatements identified during our audit above RON 2,181 thousands as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

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

| <i>Key audit matter</i> | <i>How our audit addressed the key audit matter</i> |
|---|--|
| <p>Impairment of loans and advances to customers</p> <p>We focused on this area because Management makes significant subjective judgements over both the timing of recognition of impairment losses and the estimation of the size of such impairment, which is a complex area of accounting.</p> <p>The basis of the provision for impairment for loans and advances to customers is described in the significant accounting policies note. An assessment of the provision for impairment for loans and advances to customers is performed individually for loans that are considered significant and showing impairment indicators, and collectively for other loans, with the key assumptions being the probability of an account falling</p> | <p>We assessed and tested on a sample basis the design and operating effectiveness of controls over impairment data and calculations.</p> <p>The controls included those used by Management to ensure that the loans standing data is accurate, the repayments are properly allocated to the correct loans balance, that days past due are accurately calculated by the Bank's system and the client rating is appropriately assigned.</p> <p>For loans that are assessed individually for impairment, the controls included</p> |

into arrears and subsequently defaulting, and the amount that is likely to be recovered from the borrower in the event of such default. Statistical models are used for assessment of collective impairment of loans for different categories of loans. The categories are determined based on the grouping of loans with similar credit risk characteristics.

See Note 2.2 – Significant accounting judgments and estimates, pages 8 - 9 and Note 2.3 – “Summary of significant accounting policies”, pages 14 - 15, to the financial statements.

Note 2.5 “Standards issued but not yet effective and not early adopted”, pages 22 - 26 to the financial statements provides information on the adoption of IFRS 9 “Financial Instruments” (“IFRS 9”) by the Bank from 1 January 2018, including the estimated impact of the adoption. The adoption of IFRS 9 requires that the Bank should introduce significant changes in methodologies and processes for calculation of the provision for credit losses.

those used by Management to ensure that individual assessments are appropriately performed and approved by the Credit Risk Committee.

For collectively assessed loans the controls included those to ensure that the key parameters: probability of default (“PD”), loss given default (“LGD”) and credit conversion factor (“CCF”) are regularly monitored, validated and back-tested in order to properly calibrate them.

With respect to collateral for loans we also assessed and tested controls to ensure that the collateral is properly registered, the collateral valuation is regularly assessed by qualified valuers and appropriate haircuts are applied to collateral market value, and that the collateral is properly allocated to the relevant loan.

In addition, we tested on a sample basis i) collateral valuations performed by the Bank using our own valuation specialists, and ii) individual impairment assessments performed by the Bank. We also examined a sample of loans and advances which had not been identified by Management as potentially impaired and formed our own judgement as to whether that was appropriate.

With respect to the collective impairment provision we validated, using our credit risk modelling experts, that PD, LGD and CCF are properly assigned on individual loans and, on a sample basis, we recomputed the provisions for impairment.

In the case of some impairment provisions, we formed a different conclusion from that of Management, but in our view the total differences were within a reasonable range of outcomes in the context of the overall loans and advances and the uncertainties disclosed in the financial statements.

In relation to the information on the adoption of IFRS 9 by the Group and the Bank, we have assessed the key methodologies developed for calculation of the provision for credit losses in accordance with IFRS 9 for consistency with the requirements of IFRS 9 and assessed the appropriation of the approach to classification and measurements of financial instruments under that Standard. We have obtained an understanding of and assessed for reasonableness the key judgments, assumptions and calculations made by Management for estimating the impact of the adoption of IFRS 9 on the provision for credit losses.

Litigation provisions for allegedly abusive clauses in loan contracts

We focused on the provision for allegedly abusive clauses recorded in the “Provisions” line presented in Note 30 as the measurement of the provision involves making significant judgement and estimates by the Management of the Bank.

The Management developed a methodology to estimate the required provision for allegedly abusive clauses. The methodology involves making assumptions about the number of future legal claims to be brought against the Bank, the potential cash out-flow required to settle

We examined the data used by Management in determining the provision for allegedly abusive clauses and the analysis performed by Management to assess the required level of provision.

We assessed the reasonableness of the key assumptions underpinning the provision calculation, including the estimated number of future legal claims to be brought against the Bank, the potential cash out-flow required to settle the claims and the outcome of current

the claims and the outcome of current and possible future claims. These assumptions are inherently difficult to estimate, and the estimation uncertainty is high.

See also Note 2.2 – “Significant accounting judgments and estimates”, page 9 and Note 30 – “Provisions”, pages 58 - 59, to the financial statements.

and possible future claims. We validated for a sample of closed litigations the settlement amount. We also tested the mathematical accuracy of the provision computation and validated the key data inputs into Management's assessment.

In doing so, we considered the inherent uncertainty in the estimate of the required level of provision, especially in the light of the impact on future claims volumes following the recent Court resolutions given in ANPC cases. This uncertainty could ultimately result in significantly different amounts being required to settle the obligation from those calculated by Management. However, in our view Management's assessment is within a reasonable range of possible outcomes in the context of the high degree of uncertainty which exists around these future claims.

Tax matters resulting from the tax inspection performed by the Romanian Tax Authorities

We focused on the results of the tax inspection performed by the Romanian Tax Authority disclosed in Note 44 “Contingent liabilities and commitments”, page 146 to the financial statements as the contingent liability assessment involves making significant judgement and estimates by the Management of the Bank.

Following the tax inspection performed, the Romanian Tax Authority increased the taxable base of Corporate Income Tax for the period 2012 – 2015 under review and based on these adjustments additional Corporate Income Tax Liability has been recognised. Also, additional value added tax (VAT) was identified. The Bank settled the additional liabilities identified by the

Together with our tax specialists, we examined the Fiscal Inspection Report issued by the Romanian Tax Authority and validated the additional Corporate Income Tax Liability and we tested the settlement of the liability.

Our tax specialists examined the correspondence between the Bank and the Romanian Tax Authorities and between the Bank and its external advisers. We examined the background of the additional Corporate Income Tax Liability identified during the tax inspection for the period 2012-2015 and used our knowledge of the relevant Romanian tax legislation and other similar taxation matters to assess the

Romanian Tax Authority and challenged in the Court of law the results of the tax inspection. The litigation is ongoing at the date of our report.

Given the results of the tax inspection, the Bank also analysed the need to record a provision for a potential obligation regarding additional Corporate Income Tax Liability for the period 2016 – 2017. However, based on the assessment performed by the Bank’s Management it was concluded that it is not probable that an outflow of economic benefits will be required to settle any such obligation and therefore, no provision has been recognized.

available evidence and the approach taken by Management of the Bank to conclude that only a contingent liability exist in respect of any potential obligation regarding additional Corporate Income tax liability from the matter for 2016 and 2017 in accordance with IAS 37.86 “Provisions, Contingent Liabilities and Contingent Assets”.

While we do not take exception to Management’s conclusion that the tax position is sustainable, nevertheless, as set out in the financial statements, the final resolution of this issue is subject to the future outcome of the ongoing litigation. Hence the necessity and timing of any potential outflow for 2016 and 2017 is subject to inherent uncertainty and the final resolution of this matter may not be in line with Management’s current assessment.

Non-current tax asset resulting the fiscal treatment of impairment of subsidiaries

We focused on this area because the tax treatment applied to the impairment expense for the investment in subsidiaries recorded during the period 2012 - 2015 is subject to considerable uncertainty and will not be fully determined until the final resolution of the ongoing litigation with the Romanian Tax Authority.

In previous reporting periods the Bank considered this impairment expense as non-deductible. However, the Bank reconsidered its assessment based on the arguments determined by the Management of the Bank and its external tax advisors. Consequently, Management concluded that the impairment expense for the investment in subsidiaries recorded during the period 2012 - 2015 is deductible and, in 2017,

Together with our tax specialists, we examined the arguments put forward by the Management of the Bank to support the treatment of the impairment expense for the investment in subsidiaries recorded during the period 2012 – 2015 as deductible expense and we examined the Romanian Tax Authority’s correspondence with the Bank and also considered the views of the Bank’s external tax advisors and external legal advisers.

Taking into account our understanding of the Romanian tax legislation and other factors affecting this issue we concur with Management’s assertion it is appropriate for the impairment

challenged in the Court of law the Romanian Tax Authority.

The effect of this change in assessment resulted in the recognition of a non-current tax asset in accordance with IAS 12.46 “Income Taxes” in the 2017 financial statements.

See Note 2.2. – “Significant accounting judgments and estimates”, page 10 and Note 26 – “Tax assets and liabilities”, page 51 to the financial statements.

expense in subsidiaries recorded during the period 2012 – 2015 to be treated as deductible and a non-current income tax asset to be recognised in the 2017 financial statements.

While we do not take exception to Management’s conclusion that the tax position is sustainable, nevertheless, as set out in the financial statements, the final resolution of this issue is subject to final resolution of the ongoing litigation with the Romanian Tax Authority. Hence, the fiscal treatment of the impairment expense for the subsidiaries recorded during the period 2012 – 2015 as deductible expense is subject to inherent uncertainty and the future resolution of this matter may not be in line with Management’s current assessment.

Other information - Administrators’ Report

The Administrators are responsible for the preparation and fair presentation of other information. The other information comprises the Administrators’ Report (which includes also the non-financial statement), but does not include the financial statements and our auditor’s report thereon. We obtained these other information prior to the date of this auditor’s report.

Our opinion on the financial statements does not cover the other information, including the Administrators’ Report, nor the non-financial statement.

In connection with our audit of the financial statements, our responsibility is to verify if the non-financial statement was provided. The non-financial statement has been prepared by the Administrators.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Administrators’ Report we read it and we report whether this was prepared in all material respects, in accordance with NBR Order 27/2010 articles 37 and 38.

Based on the work undertaken in the course of our audit of the financial statements, in our opinion:

- the information given in the Administrators' Report for the financial year for which the financial statements are prepared is consistent in all material respects with the financial statements;
- the Administrators' Report has been prepared in all material respects in accordance with NBR Order 27/2010 articles 37 and 38.

In addition, in light of the knowledge and understanding of the Group and Bank and its environment obtained in the course of the audit of the financial statements as at 31 December 2017, we are required to report if we have identified material misstatements in the Administrators' Report. We have nothing to report in this respect.

Responsibilities of Management and Those Charged with Governance for the financial statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRS as adopted by EU and the NBR Order 27/2010 and subsequent amendments and with the accounting policies presented in the Note 2 to the financial statements, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Group's and Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Group or the Bank or to cease operations, or has no realistic alternative but to do so.

Those Charged with Governance are responsible for overseeing the Group's and the Bank's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's or Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with Those Charged with Governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Those Charged with Governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Appointment

We were appointed as financial auditors of the Group and of the Bank in the Ordinary General Shareholders Meeting on 27 January 2017 for the financial year ended 31 December 2017. The total period of uninterrupted engagement is of 1 year covering the financial year ended 31 December 2017.

The engagement partner on the audit resulting in this independent auditor's report is Paul Facer.

**Refer to the original
signed Romanian version**

On behalf of

PricewaterhouseCoopers Audit SRL
Barbu Vacarescu Street, no. 301-311, București
Audit firm registered with
the Chamber of Financial Auditors of Romania under no 6/25 June 2001

Paul Facer
Statutory auditor registered with
the Chamber of Financial Auditors of Romania under no 3371/17 February 2010

Bucharest, 23 March 2018

Banca Comerciála Romana S.A.
Consolidated and Separate Financial Statements
(The Group and the Parent Bank)

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

31 December 2017

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STATEMENT OF COMPREHENSIVE INCOME
Consolidated and Separate for the year ended 31 December 2017

STATEMENT OF INCOME

| in RON thousands | Note | Group | | Bank | |
|---|------|----------------|------------------|----------------|------------------|
| | | 31.12.2017 | 31.12.2016 | 31.12.2017 | 31.12.2016 |
| Interest income | 3 | 2,236,504 | 2,368,200 | 2,078,763 | 2,226,843 |
| Interest expense | 3 | (472,307) | (581,505) | (400,036) | (500,380) |
| Net interest income | 3 | 1,764,197 | 1,786,695 | 1,678,727 | 1,726,463 |
| Fee and commission income | 4 | 845,336 | 839,312 | 792,218 | 792,814 |
| Fee and commission expense | 4 | (144,598) | (130,380) | (131,059) | (120,728) |
| Net fee and commission income | 4 | 700,738 | 708,932 | 661,160 | 672,086 |
| Dividend income | 5 | 4,155 | 2,878 | 19,872 | 5,004 |
| Net trading result | 6 | 329,191 | 313,020 | 329,214 | 313,067 |
| Result from financial assets and liabilities designated at fair value through profit or loss | | 1,689 | (1,148) | 1,689 | (1,148) |
| Foreign currency translation | | 23,815 | 2,445 | 17,251 | (2,821) |
| Net result from equity method investments | 23 | 807 | 1,795 | - | - |
| Rental income from investment properties and other operating lease | 7 | 63,289 | 53,549 | 9,840 | 1,014 |
| Personnel expenses | 8 | (741,664) | (729,874) | (661,913) | (657,036) |
| Other administrative expenses | 8 | (635,573) | (671,594) | (652,791) | (804,923) |
| Depreciation and amortisation | 8 | (166,983) | (169,029) | (117,269) | (105,780) |
| Gains/(losses) on financial assets and liabilities not measured at fair value through profit or loss, net | 9 | 151 | 111,747 | 151 | 111,754 |
| Net impairment (loss) / reversal on financial assets not measured at fair value through profit or loss | 10 | (32,418) | 279,990 | (22,699) | 217,288 |
| Other operating result, of which: | 11 | (406,259) | (518,915) | (456,210) | (468,927) |
| Other income | 11 | 246,790 | 252,160 | 161,288 | 182,475 |
| Other expense | 11 | (653,049) | (771,075) | (617,498) | (651,402) |
| Pre-tax profit from continuing operations | | 905,135 | 1,170,491 | 807,022 | 1,006,041 |
| Investments in subsidiaries | | | | | |
| Taxes on income | 12 | (237,008) | (130,428) | (236,712) | (119,955) |
| Post-tax profit from continuing operations | | 668,127 | 1,040,063 | 570,310 | 886,086 |
| Profit from discontinued operations net of tax | | - | - | - | - |
| NET PROFIT OF THE YEAR | | 668,127 | 1,040,063 | 570,310 | 886,086 |
| Attributable to non-controlling interests | | 6 | (1,783) | - | - |
| Attributable to owners of the parent | | 668,121 | 1,041,846 | - | - |

Statement of comprehensive income

| in RON thousands | Group | | Bank | |
|--|-----------------|------------------|-----------------|-----------------|
| | 2017 | 2016 | 2017 | 2016 |
| Net result for the period | 668,127 | 1,040,063 | 570,310 | 886,086 |
| Other comprehensive income | | | | |
| Items that may not be reclassified to profit or loss | | | | |
| Remeasurement of net gain (losses) on benefit plans | 5,230 | (655) | 5,150 | (654) |
| Deferred taxes relating to items that may not be reclassified | (837) | 105 | (824) | 105 |
| Total | 4,393 | (550) | 4,326 | (549) |
| Items that may be reclassified to profit or loss | | | | |
| Available for sale reserve | (50,876) | (133,729) | (26,443) | (115,741) |
| Gain/(loss) during the period | (51,297) | (21,982) | (26,858) | (3,987) |
| Reclassification to profit or loss | 421 | (111,747) | 415 | (111,754) |
| Currency translation | 5,039 | 1,460 | - | - |
| Gain/(loss) during the period | 5,039 | 1,460 | - | - |
| Reclassification adjustments | - | - | - | - |
| Deferred taxes relating to items that may be reclassified | 8,118 | 21,288 | 4,231 | 18,519 |
| Gain/(loss) during the period | 8,118 | 21,288 | 4,231 | (13,150) |
| Reclassification adjustments | - | - | - | - |
| Total | (37,719) | (110,981) | (22,212) | (97,222) |
| Total other comprehensive income | (33,326) | (111,531) | (17,886) | (97,771) |
| Total comprehensive income | 634,801 | 928,532 | 552,424 | 788,315 |
| Total comprehensive income attributable to non-controlling interests | (3,821) | (4,925) | - | - |
| Total comprehensive income attributable to owners of the parent | 638,622 | 933,457 | - | - |

AUTHORISED PERSON,

First name and name

Signature

President

Sergiu Manea

AUTHORISED PERSON,

First name and name

Signature

Executive Director Accounting Division,

Gina Badea

BALANCE SHEET

| in RON thousands | Note | Group | | Bank | |
|--|------|-------------------|-------------------|-------------------|-------------------|
| | | 31.12.2017 | 31.12.2016 | 31.12.2017 | 31.12.2016 |
| ASSETS | | | | | |
| Cash and cash balances | 14 | 11,369,344 | 11,911,895 | 11,245,387 | 11,648,878 |
| Financial assets - held for trading | | 104,694 | 633,199 | 104,694 | 633,199 |
| Derivatives | 15 | 41,449 | 73,486 | 41,449 | 73,486 |
| Other trading assets | 16 | 63,245 | 559,713 | 63,245 | 559,713 |
| Financial assets designated at fair value through profit or loss | 17 | 15,131 | 15,319 | 15,131 | 15,319 |
| Financial assets - available for sale | 18 | 6,599,950 | 5,574,087 | 6,146,992 | 4,845,303 |
| of which: repurchase agreements | | 141,831 | - | 557,101 | 461,222 |
| Financial assets - held to maturity | 19 | 14,756,894 | 13,904,201 | 13,375,729 | 12,386,197 |
| of which: repurchase agreements | | - | 780,155 | 551,355 | 881,003 |
| Loans and receivables to credit institutions | 21 | 2,215,113 | 552,830 | 2,420,035 | 651,414 |
| Loans and receivables to customers | 22 | 33,490,883 | 32,291,134 | 32,020,306 | 31,162,509 |
| Property and equipment | 24 | 1,315,683 | 1,472,604 | 1,015,988 | 1,158,548 |
| Investment properties | 24 | 121,490 | 422 | 121,490 | - |
| Intangible assets | 25 | 320,872 | 289,304 | 314,231 | 280,699 |
| Investments in associates | 23 | 17,375 | 16,568 | 7,509 | 7,509 |
| Tax assets | 26 | 86,736 | 162,480 | 83,435 | 159,029 |
| Deferred tax assets | 26 | 168,778 | 322,508 | 157,361 | 310,554 |
| Non-current assets and disposal groups classified as held for sale | 27 | 43,039 | 2,292 | 14,792 | 2,292 |
| Investments in subsidiaries | 28 | - | - | 533,510 | 622,150 |
| Other assets | 28 | 305,257 | 365,730 | 157,895 | 184,625 |
| TOTAL ASSETS | | 70,931,239 | 67,514,573 | 67,734,485 | 64,068,225 |
| LIABILITIES | | | | | |
| Financial liabilities held for trading | | 44,661 | 38,391 | 44,661 | 38,391 |
| Derivatives | | 44,661 | 38,391 | 44,661 | 38,391 |
| Financial liabilities measured at amortised cost | 29 | 62,007,067 | 59,236,059 | 58,920,983 | 55,825,328 |
| Deposits from banks | | 3,390,351 | 5,132,627 | 4,180,001 | 5,626,083 |
| Borrowings and financing lines | | 2,064,340 | 2,177,267 | 838,133 | 1,154,233 |
| Deposits from customers | | 52,496,062 | 48,235,198 | 49,885,158 | 45,354,909 |
| Debt securities issued | | 539,648 | 637,192 | 539,648 | 637,192 |
| Subordinated loans | | 2,371,499 | 2,344,779 | 2,371,499 | 2,344,779 |
| Other financial liabilities | 29 | 1,145,167 | 708,996 | 1,106,544 | 708,132 |
| Provisions | 30 | 1,192,565 | 1,104,102 | 1,149,625 | 1,069,547 |
| Current tax liabilities | 26 | 230 | 1,262 | - | - |
| Deferred tax liabilities | 26 | 25 | 3,966 | - | - |
| Liabilities associated with disposal groups held for sale | 27 | 12,819 | - | - | - |
| Other Liabilities | 31 | 234,759 | 326,404 | 174,559 | 242,726 |
| Total equity | | 7,439,113 | 6,804,389 | 7,444,657 | 6,892,233 |
| Share capital | 32 | 2,952,565 | 2,952,565 | 2,952,565 | 2,952,565 |
| Retained earnings | | 2,667,530 | 1,977,946 | 2,654,298 | 2,083,989 |
| Other reserves | | 1,819,018 | 1,873,878 | 1,837,794 | 1,855,679 |
| Attributable to non-controlling interest | | 36 | 25,397 | - | - |
| Attributable to owners of the parent | | 7,439,077 | 6,778,992 | - | - |
| TOTAL LIABILITIES AND EQUITY | | 70,931,239 | 67,514,573 | 67,734,485 | 64,068,225 |

AUTHORISED PERSON,

First name and name

Signature

President

Sergiu Marea

AUTHORISED PERSON,

First name and name

Signature

Executive Director Accounting Division,

Gina Badea

BCRS
STATEMENT OF CHANGES IN EQUITY
 Consolidated and Bank for the year ended 31 December 2017

Statement of changes in equity

| | 2017 | | | | | | | | | | Group |
|---|------------------|----------------|-------------------|------------------|----------------------------|------------------------------|------------------------|-----------------|----------------------------|--|------------------|
| | Share capital | Share premium | Retained earnings | Other reserves | Available for sale reserve | Currency translation reserve | Actuarial gains/(loss) | Deferred tax | Total owners of the parent | Equity attributable to non-controlling interests | Total |
| in RON thousands | | | | | | | | | | | |
| Total equity as of 31.12.2016 | 2,952,565 | 395,483 | 1,977,946 | 1,130,670 | 334,403 | (23,541) | 77,316 | (65,850) | 6,778,992 | 25,397 | 6,804,389 |
| Acquisition of non-controlling interest | - | - | 21,463 | - | - | - | - | - | 21,463 | (21,540) | (77) |
| Total comprehensive income | - | - | 668,121 | - | (46,321) | 5,039 | 5,230 | 6,553 | 638,622 | (3,821) | 634,801 |
| Net profit/(loss) for the period | - | - | 668,121 | - | - | - | - | - | 668,121 | 6 | 668,127 |
| Statement of comprehensive income | - | - | - | - | (46,321) | 5,039 | 5,230 | 6,553 | (29,499) | (3,827) | (33,326) |
| Total equity as of 31.12.2017 | 2,952,565 | 395,483 | 2,667,530 | 1,130,670 | 288,082 | (18,502) | 82,546 | (59,297) | 7,439,077 | 36 | 7,439,113 |

| | 2016 | | | | | | | | | | Group |
|--------------------------------------|------------------|----------------|-------------------|------------------|----------------------------|------------------------------|------------------------|-----------------|----------------------------|--|------------------|
| | Share capital | Share premium | Retained earnings | Other reserves | Available for sale reserve | Currency translation reserve | Actuarial gains/(loss) | Deferred tax | Total owners of the parent | Equity attributable to non-controlling interests | Total |
| in RON thousands | | | | | | | | | | | |
| Total equity as of 31.12.2015 | 2,952,565 | 395,483 | 940,775 | 1,124,463 | 464,444 | (25,046) | 77,971 | (86,652) | 5,844,003 | 31,282 | 5,875,285 |
| Merger of subsidiaries | - | - | (6,403) | 6,207 | - | - | - | - | (196) | - | (196) |
| Other changes * | - | - | 1,728 | - | - | - | - | - | 1,728 | (960) | 768 |
| Total comprehensive income | - | - | 1,041,846 | - | (130,041) | 1,505 | (655) | 20,802 | 933,457 | (4,925) | 928,532 |
| Net profit/(loss) for the period | - | - | 1,041,846 | - | - | - | - | - | 1,041,846 | (1,783) | 1,040,063 |
| Statement of comprehensive income | - | - | - | - | (130,041) | 1,505 | (655) | 20,802 | (108,389) | (3,142) | (111,531) |
| Total equity as of 31.12.2016 | 2,952,565 | 395,483 | 1,977,946 | 1,130,670 | 334,403 | (23,541) | 77,316 | (65,850) | 6,778,992 | 25,397 | 6,804,389 |

Merger impact: 6,207 RON thousands is reclassified as statutory reserve of absorbed entity from retained earnings in other reserves, (196) RON thousands representing the tax effect.

STATEMENT OF CASH FLOWS

Consolidated and Bank for the year ended 31 December 2017

Statement of cash flows

| in RON thousands | Note | Group | | Bank | |
|---|-----------|-------------------|--------------------|-------------------|--------------------|
| | | 31.12.2017 | 31.12.2016 | 31.12.2017 | 31.12.2016 |
| Net result for the period | | 668,127 | 1,040,063 | 570,310 | 886,086 |
| Non-cash adjustments for items in net profit/(loss) for the year | | | | | |
| Depreciation, amortisation, impairment and reversal of impairment, revaluation of assets | 8 | 166,983 | 169,029 | 117,269 | 105,780 |
| Allocation to and release of impairment of loans | 10 | 123,719 | 562,306 | 83,983 | 497,728 |
| Gains/(losses) from the sale of assets | | (2,194) | (1,676) | (2,790) | 2,079 |
| Other provisions | 31 | 131,401 | 290,730 | 131,401 | 273,284 |
| Impairment of subsidiaries | 11 | - | - | 97,410 | 45,856 |
| Impairment tangible and intangible assets | | 73,560 | | 70,375 | |
| Current and deferred tax not paid | | 237,008 | 126,628 | 236,712 | 92,276 |
| Interest income received from investing activities | | (480,410) | (393,234) | (433,008) | (345,243) |
| Interest expense paid for financing activities | | 134,966 | 132,581 | 122,710 | 122,924 |
| Dividend income from investing activities | | - | - | (15,717) | (2,126) |
| Other adjustments | | 186,978 | (23,430) | 214,581 | 17,879 |
| Changes in assets and liabilities from operating activities after adjustment for non-cash components | | | | | |
| Financial assets - held for trading | | 496,468 | (390,419) | 496,468 | (390,419) |
| Financial assets - at fair value through profit or loss | | - | 6,927 | - | 6,927 |
| Financial assets - available for sale | | (1,076,739) | 1,495,444 | (1,328,131) | 1,295,194 |
| Loans and receivables to credit institutions | | (1,663,796) | (348,427) | (1,770,134) | (466,783) |
| Loans and receivables to customers | | (1,453,356) | (402,683) | (1,071,668) | 113,420 |
| Other assets from operating activities | | 47,667 | 58,104 | 27,539 | 53,006 |
| Financial liabilities - held for trading | | - | - | - | - |
| Financial liabilities measured at amortised cost | | 2,966,909 | 4,337,147 | 3,483,210 | 4,023,273 |
| Deposits from banks | | (1,742,276) | (1,677,214) | (1,446,082) | (1,586,075) |
| Deposits from customers | | 4,273,014 | 5,630,622 | 4,530,880 | 5,368,205 |
| Other financial liabilities | | 436,171 | 172,789 | 398,412 | 241,143 |
| Other liabilities from operating activities | | (82,544) | 4,975 | (68,167) | (2,153) |
| Cash flow from operating activities | | 474,747 | 6,453,115 | 962,353 | 6,328,988 |
| Proceeds of disposal | | | | | |
| Financial assets - held to maturity | | 1,761,132 | 2,036,760 | 1,536,610 | 1,708,200 |
| Property and equipment, intangible assets and investment properties | | 90,027 | 17,507 | 13,268 | 4,729 |
| Acquisition of | | | | | |
| Financial assets - held to maturity | | (2,640,477) | (5,768,416) | (2,594,013) | (5,258,583) |
| Property and equipment, intangible assets and investment properties | | (361,534) | (339,177) | (210,583) | (213,059) |
| Contribution to increase in share capital of subsidiaries | | - | - | (22,079) | - |
| Interest received from investing activities | | 480,410 | 393,234 | 433,008 | 345,243 |
| Dividends received from investing activities | | - | - | 15,717 | 2,126 |
| Cash flow from investing activities | | (670,442) | (3,660,092) | (828,072) | (3,411,344) |
| Dividends paid to non-controlling interests | | | | | |
| Debt securities issued | | (80,005) | (275,044) | (80,005) | (275,044) |
| Inflows from other financing activities | | 460,257 | 359,779 | - | - |
| Outflows from other financing activities | | (592,142) | (275,115) | (335,057) | (126,286) |
| Interest expense paid for financing activities | | - | - | - | - |
| Other financing activities | | (33,209) | (35,892) | (20,953) | (26,234) |
| Subordinated loans | | (101,757) | (96,689) | (101,757) | (96,689) |
| Cash flow from financing activities | | (346,856) | (322,961) | (537,772) | (524,253) |
| Cash and cash equivalents at beginning of period | | 11,911,895 | 9,441,833 | 11,648,878 | 9,255,487 |
| Cash flow from operating activities | | 474,747 | 6,453,115 | 962,353 | 6,328,988 |
| Cash flow from investing activities | | (670,442) | (3,660,092) | (828,072) | (3,411,344) |
| Cash flow from financing activities | | (346,856) | (322,961) | (537,772) | (524,253) |
| Cash and cash equivalents at end of period | 14 | 11,369,344 | 11,911,895 | 11,245,387 | 11,648,878 |
| Cash flows related to taxes, interest and dividends (included in cash flows from operating activities) | | | | | |
| Payments for taxes on income (included in cash flow from operating activities) | | (547) | (36,846) | - | (28,317) |
| Interest received | | 2,370,658 | 2,370,658 | 1,864,851 | 2,260,290 |
| Interest paid | | 4,155 | (554,925) | 4,155 | (520,506) |
| Dividends received | | (554,925) | 2,878 | (254,936) | 5,004 |



NOTES TO THE FINANCIAL STATEMENTS

Consolidated and Separate for the year ended 31 December 2017

1. CORPORATE INFORMATION

Banca Comerciala Romana S.A. ('the Bank' or 'BCR') together with its subsidiaries (the 'Group') provides retail, corporate banking and investment banking services mainly in Romania. As a result of the privatization process organized by the government of Romania, Erste Bank der oesterreichischen Sparkassen AG ('Erste Bank') purchased 61.88% of the share capital of the Bank pursuant to a share purchase agreement dated 21 December 2005. Until 31 December 2015, Erste Bank purchased further 31.70% from employees and other shareholders of the Bank, adding up to 93.5792%. The ultimate parent of the Group is Erste Group Bank AG.

The Group provides day-to-day banking services and other financial services to governmental institutions, corporate and individual clients operating in Romania and abroad. These services include: accounts opening, domestic and international payments, foreign exchange transactions, working capital finance, medium and long term facilities, retail loans, finance micro and small enterprises, bank guarantees, letters of credit and through subsidiaries also leasing, brokerage, financial consultancy services and asset management.

Banca Comerciala Romana S.A. is incorporated and domiciled in Romania. Its registered office is at 5, Elisabeta Boulevard, Bucharest, Romania.

The consolidated financial statements for the year ended 31 December 2017 were authorized for issue in accordance with a resolution of the Management Board on 16 March 2018.

The financial statements are audited by Price Waterhouse Coopers starting with the financial exercise ended 31 December 2017. The previous financial statements have been audited by Ernst & Young.

2. ACCOUNTING POLICIES

The accounting policies apply to both the consolidated ("Group") and separate financial statements of the Bank, except for accounting of investments in subsidiaries and associates in the Bank's financial statements.

2.1. Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis modified to include the inflation adjustments under International Accounting Standard (IAS) 29 "Financial Reporting in Hyperinflationary Economies" up to 31 December 2003, except for available-for-sale investments, trading financial assets, derivative financial instruments and financial assets at fair value through profit or loss, that have been measured at fair value.

The Bank and its subsidiaries which are incorporated in Romania maintain their books of account and prepare their statutory financial statements in accordance with Romanian Accounting Regulations and in the case of the Bank and its subsidiaries 'BCR Leasing IFN SA' and 'Banca pentru Locuinte' in accordance with Romanian Banking Regulations. The foreign subsidiaries maintain their books of account and prepare their statutory financial statements in their presentation currencies and in accordance with the regulations of the countries in which they operate.

The consolidated financial statements are presented in Romanian Lei ('RON'), and all values are rounded to the nearest RON thousands, except when otherwise indicated. The tables in this report may contain rounding differences.

The consolidated financial statements have been prepared on a going concern basis.

The Group presents its statement of financial position in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in Note 45.

2. ACCOUNTING POLICIES (continued)
2.1 Basis of preparation (continued)

The Bank has the following subsidiaries consolidated in the financial statements of the Group as at 31 December 2017 and 31 December 2016:

| Company's name | Country of incorporation | Nature of the business | Shareholding | |
|---|--------------------------|-----------------------------|--------------|---------|
| | | | 2017 | 2016 |
| BCR Chisinau SA | Moldova | Banking | 100.00% | 100.00% |
| BCR Leasing IFN SA | Romania | Financial leasing | 99.97% | 99.97% |
| BCR Pensii, Societate de Administrare a Fondurilor de Pensii Private SA | Romania | Pension Fund | 99.99% | 99.99% |
| BCR Banca pentru Locuinte SA | Romania | Housing loans | 99.99% | 80.00% |
| Suport Colect SRL | Romania | Workout | 99.99% | 99.99% |
| CIT One SRL | Romania | Cash processing and storing | 100.00% | 100.00% |
| BCR Fleet Management SRL * | Romania | Operational leasing | 99.97% | 99.97% |
| BCR Payments Services SRL | Romania | Payments transactions | 99.99% | 99.99% |

* Company held indirectly by BCR through BCR Leasing SA

(1) Impact of inflation

Romania was a hyperinflationary economy and was officially declared as ceasing to be hyperinflationary for IFRS reporting purposes as at 1 July 2004. The financial statements of the Group and the Bank have been restated to take into account the effects of inflation until 31 December 2003 in accordance with the provisions of and guidance in IAS 29. In summary IAS 29 requires that financial statements prepared on a historical cost should be restated in terms of measuring unit current at the balance sheet date and that any gain or loss on the net monetary position should be included in the profit or loss and disclosed separately.

(2) Statement of compliance

The separate and consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretations issued by the International Accounting Standards Board (IASB) as adopted by the EU.

(3) Basis of consolidation
Subsidiaries

All entities directly or indirectly controlled by Banca Comerciala Romana SA are consolidated in the Group financial statements on the basis of their annual accounts as of year end. The financial statements of the subsidiaries are prepared for the same reporting year as for the Bank, using consistent accounting policies.

The Bank measures investments in subsidiaries at cost.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full. Subsidiaries are fully consolidated from the date on which control is transferred to the Bank. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit or loss from the date of acquisition or up to the date of disposal, as appropriate.

Non-controlling interests represent those portions of total comprehensive income and net assets that are not attributable directly or indirectly to the owners of Banca Comerciala Romana SA. Non-controlling interests are presented separately in the consolidated statement of income, in the consolidated statement of comprehensive income and within equity on the consolidated balance sheet. Acquisitions of non-controlling interests as well as disposals of non-controlling interests that do not lead to a change of control are accounted for as equity transactions, whereby the difference between the consideration transferred and the share in the carrying amount of the net assets acquired is recognised as equity.

At each reporting date, the Group determines whether there is objective evidence that the investment in the subsidiary is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, then, recognizes the loss under Other Operating Result in the statement of profit or loss.

2. ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

Investment in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control over those policies.

The judgment made in determining significant influence are the same to those necessary to determine control over subsidiaries.

The Group's investments in its associate are accounted for using the equity method. The Bank's investments in its associate are accounted at cost in the separate financial statements.

Under the equity method, the investment in an associate is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The statement of profit or loss reflects the Group's share of the results of operations of the associate. Any change in Other Comprehensive Income of those investees is presented as part of the Group's Other Comprehensive Income. In addition, when there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any changes, when applicable, in the statement of changes in equity. Unrealized gains and losses and dividends resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, then, recognizes the loss as 'Share of profit of an associate' in the statement of profit or loss.

Upon loss of significant influence over the associate, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

2.2. Significant accounting judgments and estimates

In the process of applying the Group's accounting policies, management has used its judgments and made estimates in determining the amounts recognized in the financial statements. The most significant use of judgments and estimates are as follows:

(1) Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available judgment is required to establish fair values. Disclosures for valuation models, the fair value hierarchy, fair values of financial instruments and sensitivity analysis for level 3 financial instruments can be found in Note 40 Fair value of assets and liabilities.

(2) Impairment losses on loans and advances

The Group reviews its individually significant loans and advances at each statement of financial position date to assess whether an impairment loss should be recorded in the statement of comprehensive income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Group makes judgments about the borrower's financial situation and the net realizable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred

2. ACCOUNTING POLICIES (continued)**2.2. Significant accounting judgments and estimates (continued)**

loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as credit quality, levels of arrears, credit utilization, loan to collateral ratios etc.), concentrations of risks and economic data.

The impairment loss on loans and advances is disclosed in more detail in Note 39.5.

(3) Deferred tax assets

Deferred tax assets are recognized in respect of tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits, together with future tax planning strategies. According to the five-years budgets approved, management estimates that future taxable profits will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized. Disclosures concerning deferred taxes are in Note 12 and 26.

(4) Benefits granted on the date of retirement

The cost of the defined benefit consisting of a one-off payment of up to four monthly gross salaries on the date of retirement is determined using actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases and mortality rates. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. See Note 30 for the assumptions used.

The cost of the defined benefit pension plan is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Assumptions, estimates and sensitivities used for the defined benefit obligation calculations as well as related amounts are disclosed in Note 30 Provisions.

(5) Impairment of subsidiaries

The Bank reviews its holdings in subsidiaries at each reporting date and whenever a trigger of impairment has appeared, in order to assess whether there is objective evidence that the investment in the subsidiary is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the subsidiary and its carrying value (higher of fair value less costs to sell and value in use), then, recognizes the loss under Other Operating Result in the statement of profit or loss.

Based on business specifics, specific valuation methods are applied for each company, such as Dividend Discount Model, Discounted Cash Flows model and Net Assets Value model. The calculation of Fair Value and Value in Use for both foreign and local subsidiaries is most sensitive to discount rates and financial projections (budgets) used.

Assumptions, estimates and sensitivities used for the impairment of subsidiaries as well as related amounts are disclosed in Note 28 Other assets.

(6) Provisions for allegedly abusive clauses

According to the amendments brought to Law 193 in 2013, whenever the National Consumer Protection Agency or a consumer association ask the court to qualify a clause as abusive, should the judge consider it so, that clause has to be removed from all the ongoing contracts. Since 2015, the Group analyses regularly the amount of collective provisions for cases with allegedly abusive clauses relating to the reimbursement risk (payment risk) of interest and commissions, related to the contracts having similar clauses with the ones subject to the existing litigation portfolio.

The provisions are calculated for the portfolios at risk based on expected values, using statistical methods, separately for active loans, closed loans and loans sold for which the Bank has retained continuing involvement (described in Note 38 Transfers of financial assets). The key parameters used are the following: the potential abusive amount, the show up rate (percentage of clients that would open a litigation) and the loss probability.

Please see further details on the calculation, including the parameters used, in Note 30 provisions.

2. ACCOUNTING POLICIES (continued)**2.2. Significant accounting judgments and estimates (continued)****(7) Tax asset resulting from the fiscal treatment of impairment of subsidiaries**

In previous reporting periods the Bank considered the impairment expense for subsidiaries as non-deductible. However, the Bank reconsidered its assessment. Consequently, Management concluded that the impairment expense for the investment in subsidiaries recorded during the period 2012 - 2015 is deductible. In 2017, the Bank applied for deductibility of expenses with impairment of subsidiaries. Despite all the arguments put forward by the Bank, the tax authorities considered that the expenses incurred by the Company with the depreciation of the subsidiaries are not deductible. In 2017 the Bank challenged in the Court of law the Romanian Tax Authority.

The effect of this change in assessment resulted in the recognition of a non-current tax asset of RON 168 million in accordance with IAS 12.46 "Income Taxes" in the 2017 financial statement. The final resolution of this issue is subject to final resolution of the ongoing litigation with the Romanian Tax Authority. Hence, the fiscal treatment of the impairment expense for the subsidiaries recorded during the period 2012 – 2015 as deductible expense is subject to inherent uncertainty.

Please see further details on the amounts in Note 26 Tax assets and liabilities.

2.3. Summary of significant accounting policies

The main accounting policies applied in the preparation of the separate financial statements of the Bank and of the consolidated financial statements of the Group are set out below:

(1) Foreign currency translation

The financial statements are presented in RON, which is the Bank's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

(i) Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency at the rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currency at the rate of exchange ruling at the statement of financial position date. All differences are taken to 'Foreign currency translation' in the profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(ii) Group companies

As at the reporting date, the assets and liabilities of foreign subsidiaries are translated into the Bank's presentation currency (RON) at the National Bank of Romania (NBR) rate of exchange ruling at the statement of financial position date, and their profits or losses are translated at the average NBR exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognized in equity relating to that particular foreign operation is recognized in the statement of comprehensive income in 'Other operating result'.

(2) Financial instruments – initial recognition and subsequent measurement**(i) Date of recognition**

Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace are recognized on the settlement date, i.e. the date on which the agreement is settled by delivery of assets that are subject of the agreement.

Any change in the fair value of the asset to be received during the period between the trade date and the settlement date is not recognized for assets carried at cost or amortized cost (other than impairment losses). For assets carried at fair value, however, the change in fair value shall be recognized in profit or loss or in other comprehensive income, as appropriate.

Derivatives are recognized on trade date basis, i.e. the date that the Group commits to purchase or sell the asset.

2. ACCOUNTING POLICIES (continued)**2.3. Summary of significant accounting policies (continued)**

When the transaction price differs from the fair value of other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets, the Bank immediately recognizes the difference between the transaction price and fair value (a Day 1 profit or loss) in Net trading result. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognized in the income statement when the inputs become observable, or when the instrument is derecognized.

(ii) Initial recognition of financial instruments

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus, in the case of financial assets and financial liabilities not at fair value through profit or loss, any directly attributable incremental costs of acquisition or issue.

(iii) Derivatives recorded at fair value through profit or loss

Derivatives include currency swaps, forward foreign exchange contracts, interest rate swaps and interest rate options. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives held for trading are included in 'Net trading result'.

(iv) Financial assets and financial liabilities held for trading

Financial assets or financial liabilities held for trading, comprising financial instruments held for trading other than derivatives, are recorded in the statement of financial position at fair value. Changes in fair value are recognized in 'Net trading result'. Interest and dividend income or expenses are recorded in 'Interest income' or 'Interest expense' according to the terms of the contract, or when the right to the payment has been established.

Included in this classification are debt securities, equities and short positions in debt securities and securities which have been acquired principally for the purpose of selling or repurchasing in the near term.

Changes in fair value (clean price for debt instruments) resulting from other trading assets and liabilities are reported in the statement of income under the line item 'Net trading result'. Interest income and expenses are reported in the statement of income under the line item 'Net interest income'. Dividend income is shown under the line item 'Dividend income'.

(v) Financial assets or financial liabilities designated at fair value through profit or loss

Financial assets and financial liabilities classified in this category are designated by management on initial recognition when the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or
- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in fair value are recorded in 'Result from financial assets and liabilities designated at fair value through profit or loss'. Interest earned or incurred is accrued in interest income or expense, respectively, according to the terms of the contract, while dividend income is recorded in 'Dividend income' when the right to the payment has been established.

(vi) Held-to-maturity financial investments

Held-to-maturity financial investments are those which carry fixed or determinable payments and have fixed maturities and which the Group has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortized cost using the effective interest rate method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization is included in 'Net interest income' in the statement of comprehensive income. The losses arising from impairment of such investments are recognized in the statement of comprehensive income line 'Net impairment (loss)/reversal in financial assets not measured at fair value through profit or loss'.

If the Group were to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity (other than in certain

2. ACCOUNTING POLICIES (continued)**2.3. Summary of significant accounting policies (continued)**

specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Group would be prohibited from classifying any financial asset as held to maturity during the following two years.

(vii) Loans and receivable to credit institution and to customers

'Loans and receivable to credit institution and to customers' are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as 'Financial assets held for trading', designated as 'Financial investments – available-for-sale' or 'Financial assets designated at fair value through profit or loss'. After initial measurement, amounts due from banks and loans and advances to customers are subsequently measured at amortized cost using the effective interest rate method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that should be an integral part of the effective interest rate. The amortization is included in 'Net interest income' in the statement of comprehensive income. The losses arising from impairment are recognized in the statement of comprehensive income in 'Net impairment (loss)/reversal in financial assets not measured at fair value through profit or loss'.

(viii) Available-for-sale financial investments

Available-for-sale financial investments are those which are designated as such or do not qualify to be classified as financial investments at fair value through profit or loss, trading financial assets, held-to-maturity or loans and advances. They include equity instruments, investments in mutual funds and money market and other debt instruments. After initial measurement, available-for-sale financial investments are subsequently measured at fair value. Unrealized gains and losses are recognized directly in equity in the 'Available-for-sale reserve'. When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the statement of comprehensive income in 'Gain/losses from financial assets and liabilities not measured at fair value through profit or loss'. Where the Group holds more than one investment in the same security they are deemed to be disposed of on a first-in first-out basis. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the effective interest rate. Dividends earned whilst holding available-for-sale financial investments are recognized in the profit or loss as 'Dividend income' when the right of the payment has been established. The losses arising from impairment of such investments are recognized in the profit or loss in 'Gain/losses from financial assets not measured at fair value through profit or loss' and removed from the available-for-sale reserve.

In 2017, as part of IFRS 9 implementation, valuation models for investments in unquoted equities were developed. BCR Group considers that these models deliver reliable fair value measurement. As a result, these investments were remeasured to fair value throughout 2017. The remeasurement effects are disclosed in Note 18 Financial assets – available for sale.

(ix) Debt securities issued

Issued financial instruments or their components, which are not designated at fair value through profit or loss, are classified as liabilities under 'Debt securities issued', where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. After initial measurement, debt issued and other borrowings are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and costs that should be an integral part of the effective interest rate.

(x) Reclassification of financial assets

For a financial asset reclassified out of the 'Available-for-sale' category, any previous gain or loss on that asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the effective interest rate method. Any difference between the new amortized cost and the expected cash flows is also amortized over the remaining life of the asset using the effective interest rate method. If the asset is subsequently determined to be impaired then the amount recorded in equity is recycled to the profit or loss. Reclassification is at the election of management, and is determined on an instrument by instrument basis. The Group does not reclassify any financial instrument into the fair value through profit or loss category after initial recognition.

2. ACCOUNTING POLICIES (continued)**2.3. Summary of significant accounting policies (continued)****(3) Derecognition of financial assets and financial liabilities****(i) Financial assets**

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

The bank realizes derecognition for sold loans for cases where contractual rights of the relevant loans have been transferred. Point of time to effect the derecognition: in the month of the derecognition criteria being met, i.e when substantially all risks and rewards have been transferred.

The bank realizes several types of write-offs depending on criteria being met and business decisions.

- a) Technical write-offs, i.e removing defaulted loan exposure from the on-balance sheet records of the bank to off-balance exposure when the claim is deemed uncollectible and fully provisioned. Main criteria in this respect is internal assessment for the exposure subject to the write-off to be deemed uncollectible.
- b) Contractual write-offs. i.e debt forgiveness towards the client. It can be either unconditional or subject to conditions, and/or the consequence of a reorganization plan in a legal insolvency proceeding. Main criteria is for the conditions precedent to have been met. In case of Forbearance/ amnesty programs granted to customers criteria is driven by Workout strategy.
- c) Derecognition (non-contractual) of defaulted exposure, i.e derecognition due to economic loss. Main criteria in this respect is (economic) loss of rights to the credit claim (e.g. bankruptcy / liquidation), or company deleted from Trade Registry, no other recovery methods available.

(ii) Financial liabilities

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

(4) Repurchase and reverse repurchase agreements

Transactions where securities are sold under an agreement to repurchase at a specified future date are also known as 'repos' or 'sale and repurchase agreements'. Securities sold are not derecognized from the statement of financial position, as Group retains substantially all the risks and rewards of ownership because the securities are repurchased when the repo transaction ends. Furthermore, the Group is the beneficiary of all the coupons and other income payments received on the transferred assets over the period of the repo transactions. These payments are remitted to the Group or are reflected in the repurchase price.

The corresponding cash received is recognized on the statement of financial position with a corresponding obligation to return it as a liability under the line item 'Financial liabilities measured at amortized cost', sub-items 'Deposits from banks' or 'Deposits from customers' reflecting the transaction's economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated as interest expense and recorded in the income statement under the line item 'Net interest income' and is accrued over the life of the agreement.

Conversely, securities purchased under agreements to resell at a specified future date are not recognized on the statement of financial position. Such transactions are also known as 'reverse repos'. The consideration paid is recorded on the balance sheet under the respective line items 'Loans and receivables to credit institutions' or 'Loans and receivables to customers', reflecting the transaction's economic substance as a loan by the Group. The difference between the purchase and resale prices is treated as interest income and is accrued over the life of the agreement and recorded in the income statement under the line item 'Net interest income'.

2. ACCOUNTING POLICIES (continued)**2.3. Summary of significant accounting policies (continued)****(5) Securities lending and borrowing**

Securities lending and borrowing transactions are usually collateralized by securities or cash. The transfer of the securities to counterparties is only reflected on the statement of financial position if the risks and rewards of ownership are also transferred. Cash advanced or received as collateral is recorded as an asset or liability.

Securities borrowed are not recognized on the statement of financial position, unless they are sold to third parties, in which case the obligation to return the securities is recorded as a trading liability and measured at fair value with any gains or losses included in 'Net trading and fair value result'.

(6) Determination of fair value

The fair value for financial instruments traded in active markets at the statement of financial position date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include pricing models or discounted cash flow techniques. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is market related rate at the statement of financial position date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the statement of financial position date. Where a fair value cannot reliably be estimated, unquoted equity instruments e.g. investments in subsidiaries (see note 28) that do not have a quoted market price in an active market are measured at cost and periodically tested for impairment.

(7) Impairment of financial assets

The Group assesses at each statement of financial position date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. Disclosures concerning impairment of financial assets are in Note 39.5.

(i) Loans and receivable to credit institution and to customers

For amounts due from banks and loans and advances to customers carried at amortized cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the profit or loss. Interest income continues to be recognized on the reduced carrying amount based on the original effective interest rate of the asset. Interest income reduces the allowance account. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If a write-off is later recovered, the recovery is credited to the 'Net impairment (loss)/reversal on financial assets not measured at fair value through profit or loss'.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit grading system that considers credit risk characteristics.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss

2. ACCOUNTING POLICIES (continued)**2.3. Summary of significant accounting policies (continued)**

experience for assets with credit risk characteristics similar to those in the group. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

BCR seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The fair value of collateral is generally assessed, at a minimum, at inception and periodically after the inception date.

To the extent possible, BCR uses active market data for valuing financial assets, held as collateral. Other financial assets which do not have a readily determinable market value are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, housing price indices, audited financial statements, and other independent sources.

(ii) Held-to-maturity financial investments

For held-to-maturity investments BCR assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognized in the profit or loss to the 'Net impairment loss on financial assets not measured at fair value through profit or loss'.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, any amounts formerly charged are credited to the 'Net impairment (loss)/reversal on financial assets not measured at fair value through profit or loss'.

(iii) Available-for-sale financial investments

For available-for-sale financial investments, BCR assesses at each statement of financial position date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the profit or loss – is removed from equity and recognized in the profit or loss. Impairment losses on equity investments are not reversed through the profit or loss; increases in their fair value after impairment are recognized directly in equity.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as part of 'Net interest income'. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the profit or loss, the impairment loss is reversed through the profit or loss.

(iv) Renegotiated loans

Where possible, BCR seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

For clients with renegotiated loans with an exposure larger than EUR 400 thousands and who have either default or watch flag or are in a workout process, the impairment test is performed on a monthly basis on account level, for the entire exposure.

(v) Collateral repossessed

BCR's policy is to determine whether a repossessed asset is best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at their fair value. Assets that are determined better to be sold are immediately transferred to inventories at their fair value at the repossession date in line with the Group's policy. Inventories are valued at lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sell.

2. ACCOUNTING POLICIES (continued)**2.3. Summary of significant accounting policies (continued)****(8) Offsetting financial instruments**

Financial assets and financial liabilities are presented gross in the statement of financial position.

(9) Leasing

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

(i) Group as a lessee

Leases which do not transfer to the Group substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognized as an expense in the profit or loss on a straight line basis over the lease term. Contingent rental payables are recognized as an expense in the period in which they are incurred.

(ii) Group as a lessor

Finance leases, where the Group transfers substantially all the risk and benefits incidental to ownership of the leased item to the lessee, are included in the statement of financial position in 'Loans and receivable to customers'. A receivable is recognized over the leasing period of an amount equalling the present value of the lease payments using the implicit rate of interest and including any guaranteed residual value. All income resulting from the receivable is included in 'Net interest income' in the statement of comprehensive income.

The lessor in the case of a finance lease reports a receivable from the lessee under the line item "Loans and receivables to customers" or "Loans and advances to credit institutions". The receivable is equal to the present value of the contractually agreed payments taking into account any residual value. Interest income on the receivable is reported in the income statement under the line item "Net interest income".

In the case of operating leases, the leased asset is reported by the lessor in "Property and equipment" or in "Investment properties" and is depreciated in accordance with the principles applicable to the assets involved. Lease income is recognized on a straight-line basis over the lease term in the income statement under the line item "Rental income from investment properties and other operating leases".

Lease agreements in which the group is the lessor almost exclusively comprise finance lease.

(10) Recognition of income and expenses

Revenue/expense is recognized to the extent that it is probable that the economic benefits will inflow/outflow to the Group and the revenue/expense can be reliably measured.

(i) Net interest income

For all financial instruments measured at amortized cost and interest bearing financial instruments classified as available-for-sale financial investments, interest income or expense is recorded at the effective interest rate, which is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount.

The amounts related to the interest accrual from derivatives classified in the category "held for trading" which is hedging instruments from an economic but not accounting point of view are reported as interest income and expenses, to present correct interest income and expenses from the financial instruments that are hedged. These amounts are included as a part of the items "Interest income- Financial assets held for trading" and "Interest expenses- Financial liabilities held for trading".

(ii) Net fee and commission income

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

Fee income earned from services that are provided over a certain period of time

2. ACCOUNTING POLICIES (continued)**2.3. Summary of significant accounting policies (continued)**

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission and asset management income, custody and other management and advisory fees.

Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognized as an adjustment to the effective interest rate on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognized over the commitment period on a straight line basis.

Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria. These fees include underwriting fees, corporate finance fees and brokerage fees.

(iii) Dividend income

Revenue is recognized when the Group's or Bank's right to receive the payment is established.

(iv) Net trading and fair value result

Results arising from trading activities include all gains and losses from changes in fair value and related interest income or expense for financial assets and financial liabilities held for trading. This includes any ineffectiveness recorded in hedging transactions.

(11) Cash and cash balances

Cash and cash balances as referred to in the cash flow statement comprises cash on hand, current accounts with central banks and amounts due from banks on demand and overnight. Cash and cash balances are measured at amortised cost.

(12) Property and equipment

Property and equipment is stated at cost (restated for hyperinflation for assets acquired prior to 31 December 2003 – Note 2.1) excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Changes in the expected useful life are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives. Land is not depreciated. The estimated useful lives are as follows:

- Buildings 30 to 50 years (mainly 50 years)
- Office equipment 3 to 10 years
- Other furniture and equipment 3 to 10 years

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in 'Other operating result' in the statement of comprehensive income in the year the asset is derecognized.

(13) Investment properties

Investment property is property (land and buildings or part of a building or both) held for the purpose of earning rental income or for capital appreciation. In the case of partial own use, the property is classified as investment property only if the owner-occupied portion is not significant. Investments in land and buildings under construction, where the future use is expected to be the same as for investment property, are treated as investment property.

An investment property is measured initially at its cost taking into account any expenditure directly attributable to the purchase (e.g. fees paid to the estate agent, notarial fees, property transfer taxes and fees).

After initial recognition an investment property is measured at cost (cost model) in accordance with IAS 16. Following that, an investment property is carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the profit or loss in the period of derecognition.

2. ACCOUNTING POLICIES (continued)**2.3. Summary of significant accounting policies (continued)****(14) Business combinations and Goodwill**

Business combinations are accounted for using the acquisition method.

Goodwill is initially measured at cost being the excess of the cost of the business combination over the Group's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

(14.1) Business combinations with entities under common control

Business combinations arising from transfers of interest in entities that are under the common control are accounted for as if the acquisition had occurred at the effective date of the merger. No restatement of the comparatives was presented. The assets and liabilities of the absorbed entities are recognized at the carrying amounts recognized previously in the Group's controlling shareholder's consolidated financial statements.

(15) Intangible assets

Intangible assets include the value of computer software and licenses. Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

Amortization is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives as follows:

- Computer software and licenses 3-7 years

(16) Impairment of non-financial assets

The Group assesses at each reporting date or more frequently if events or changes in circumstances indicate that the carrying value may be impaired, whether there is an indication that a non-financial asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount.

Buildings have been split in the following categories in order to establish the Cash Generating Unit level and perform Value in use calculation for the impairment testing:

- Occupied buildings
- Rented buildings (including buildings rented more than 50%)
- Free buildings (including buildings free more than 50%)

The CGU in case of occupied buildings was established at Company (BCR) Level, while rented and free buildings are treated as separate identifiable CGUs

(17) Non-current assets and disposal groups held for sale

Non-current assets are classified as held for sale if they can be sold in their present condition and the sale is highly probable within 12 months of classification as held for sale. If assets are to be sold as part of a group that may also contain liabilities (e.g. a subsidiary) they are referred to as disposal group held for sale.

2. ACCOUNTING POLICIES (continued)**2.3. Summary of significant accounting policies (continued)**

The assessment on whether the sale is highly probable takes into account the following aspects:

- The appropriate level of management is committed to a plan to sale
- An active programme to locate a buyer and complete the sale has already begun
- The asset must be actively marketed at a price that is reasonable compared to its current fair value
- The sale should be expected to be recorded as completed within one year from the date of classification
- The actions required to complete the plan should indicate that it is not likely that there will be significant changes made to the plan or that the plan will be withdrawn

Assets classified as held for sale and assets belonging to disposal groups held for sale are reported under the balance sheet line item 'Assets held for sale'. Liabilities belonging to the disposal groups held for sale are presented on the balance sheet under the line item 'Liabilities associated with assets held for sale'.

Non-current assets and disposal groups that are classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Should the impairment loss in a disposal group exceed the carrying amount of the assets that are within the scope of IFRS 5 measurement requirements, there is no specific guidance on how to treat such a difference. The Group recognizes this difference in line 'Other operating result'.

(18) Property held for sale (Inventory)

The Group also invests in property that is held for sale in the ordinary course of business or property in the process of construction or development for such sale. This property is presented as 'Other assets' and is measured at the lower of cost and net realisable value in accordance with IAS 2 Inventories.

The cost of acquiring inventory includes not only the purchase price but also all other directly attributable expenses, such as transportation costs, customs duties, other taxes and costs of conversion of inventories, etc. Borrowing costs are capitalised to the extent to which they directly relate to the acquisition of real estate.

Sales of these assets are recognised as revenues under the statement of income line item 'Other operating result', together with costs of sales and other costs incurred in selling the assets.

(19) Financial guarantees

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized in the financial statements at fair value, in 'Other liabilities', being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the statement of comprehensive income in 'Other operating result' and in the statement of financial position in "Provisions". The premium received is recognized in the statement of comprehensive income in 'Net fees and commission income' on a straight line basis over the life of the guarantee.

(20) Employee benefits**(i) Short term service benefits**

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

(ii) Defined contribution plans

The Bank and the subsidiaries in Romania, in the normal course of business make payments to the Romanian State funds on behalf of its Romanian employees for pension, health care and unemployment benefit. All employees of the Bank and of the subsidiaries in Romania are members and are also legally obliged to make defined contributions (included in the social security contributions) to the Romanian State pension plan (a State defined contribution plan). All relevant contributions to the Romanian State pension plan are recognized as an expense in the profit or loss as incurred. The Bank and the subsidiaries in Romania do not have any further obligations.

The Bank and the subsidiaries in Romania do not operate any independent pension scheme and, consequently, have no obligation in respect of pensions.

2. ACCOUNTING POLICIES (continued)**2.3. Summary of significant accounting policies (continued)*****(iii) Long-term service benefits***

The Bank's net obligation in respect of long-term service benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. On the basis of the Collective Labor Agreement, the Bank and one of its Romanian subsidiaries have a contractual obligation to make a one-off payment of up to four (the Bank), respectively two (the subsidiary) gross monthly salaries to retiring employees on the date of retiring. The defined benefit obligations are calculated by a qualified actuary taking into account the estimated salary at the date of retirement and the number of years served by each individual.

(21) Provisions

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

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

(22) Taxes***(i) Current tax***

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the statement of financial position date.

Liability for a levy (i.e Deposit insurance fund and recovery & resolution fund) imposed by a government is recognized at the amount expected to be paid to the Government or similar local or international bodies, progressively if the obligating event occurs over a period of time, or in full when a minimum threshold is reached if the obligation is triggered on reaching a minimum threshold.

(ii) Deferred tax

Deferred tax is provided on temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except:

- where the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each statement of financial position date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

Current tax and deferred tax relating to items recognized directly in equity are also recognized in other comprehensive income and not in the profit or loss.

2. ACCOUNTING POLICIES (continued)**2.3. Summary of significant accounting policies (continued)**

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(23) Fiduciary assets

Assets held in a fiduciary capacity are not reported in the financial statements, as they are not the assets of the Group.

(24) Dividends on ordinary shares

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

Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Group.

Dividends for the year that are approved after the statement of financial position date are disclosed as an event after the statement of financial position date.

(25) Segment reporting

An operating segment is a component of the Group:

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

An operating segment may engage in business activities for which it has yet to earn revenues, for example, start-up operations may be operating segments before earning revenues.

(26) Comparatives related to merger

In 2016 BCR Bank absorbed two of its subsidiaries, namely REM and BFP. The effective date of the merger was 31 December 2016.

In preparing the Bank's individual financial statements in accordance with IFRSs as endorsed by the European Union, the following methods were applied:

- a) Statement of financial position as at 31 December 2016 was presented for BCR together with REM & BFP after the merger took place, and inter-company transactions between the three companies were eliminated;
- b) Statement of comprehensive income for the year ended 31 December 2016 includes only BCR, plus the impact of deferred tax from merger;
- c) The effect of the merger for the three entities is presented on Statement of changes in equity as of 31 December 2016

2. ACCOUNTING POLICIES (continued)**2.4. Changes in accounting policy and disclosures**

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the BCR Group as of 1 January 2017:

Recognition of Deferred Tax Assets for Unrealized Losses – Amendments to IAS 12

The amendments were issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017, (effective for the EU for annual periods beginning 1 January 2017). The amendment has clarified the requirements on recognition of deferred tax assets for unrealized losses on debt instruments. The entity will have to recognize deferred tax asset for unrealized losses that arise as a result of discounting cash flows of debt instruments at market interest rates, even if it expects to hold the instrument to maturity and no tax will be payable upon collecting the principal amount. The economic benefit embodied in the deferred tax assets arises from the ability of the holder of the debt instrument to achieve future gains (unwinding of the effects of discounting) without paying taxes on those gains.

Disclosure Initiative – Amendments to IAS 7

The amendments were issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017, (effective for the EU for annual periods beginning 1 January 2017). The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. The Group presents this additional disclosure at Note 29 Financial liabilities measured at amortised cost.

Annual improvements to IFRSs 2014-2016 cycle – Amendments to IFRS 12

The amendments were issued on 8 December 2016 and are effective for annual periods beginning on or after 1 January 2017, (not yet endorsed by the EU). The amendments clarify the scope of the disclosure requirements in IFRS 12 by specifying that the disclosure requirements in IFRS 12, other than those relating to summarized financial information for subsidiaries, joint ventures and associates, apply to an entity's interests in other entities that are classified as held for sale or discontinued operations in accordance with IFRS 5.

2.5. Standards issued but not yet effective and not early adopted

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2018 or later, and which the Group has not early adopted.

Standards and interpretations not yet effective

The standards, amendments and interpretations shown below were issued by the IASB but are not yet effective.

The following standards, amendments and interpretations are not yet endorsed by the EU:

- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement
- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures
- Amendments to IAS 40: Transfers of Investment Property
- Annual Improvements to IFRSs 2015-2017 Cycle (amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23)
- IFRIC 22: Foreign Currency Transactions and Advance Consideration
- IFRIC 23: Uncertainty over Income Tax Treatments

The following standards, amendments and interpretations are already endorsed by the EU:

- IFRS 9: Financial Instruments
- IFRS 15: Revenue from Contracts with Customers including Amendments to IFRS 15: Effective date of IFRS 15
- Clarifications to IFRS 15 Revenue from Contracts with Customers
- IFRS 16: Leases
- Annual Improvements to IFRSs 2014-2016 Cycle (amendments to IAS 28 and IFRS 1)

IFRS 9: Financial Instruments (IASB Effective Date: 1 January 2018) IFRS 9 was issued in July 2014 and is effective for annual periods beginning on or after 1 January 2018. IFRS 9 addresses the classification and measurement of financial assets and liabilities, introduces new principles for hedge accounting and a new impairment model for financial assets.

2. ACCOUNTING POLICIES (continued)**2.5 Standards issued but not yet effective and not early adopted**

The Group has reviewed its financial assets and financial liabilities in order to evaluate the impact of the first application of IFRS 9 on Group's equity and regulatory capital as of 1 January 2018 ('transition impact'). This review involved iterative financial impact studies across the Group which continued throughout 2017. Furthermore, starting with the second half of 2017, a fully-fledged parallel run of the IAS 39 production environment and the IFRS 9 test environment has been undertaken in multiple iterations. This parallel run provided significant benefits with regards to ensuring a technically correct transition to IFRS 9, but also with regards to refining the transition impact expectations. At the same time, the parallel run outputs bear an inherent degree of approximation that has been reducing along with different IFRS 9-driven functionalities being user-tested and transferred into production. Post-transition activities will continue throughout the year 2018, notably in respect of:

- finalisation of the testing and assessment of controls over new IT-systems and changes to their governance framework;
- validation and potential refinement of the models for expected credit loss calculations;
- updating the policy landscape at Group and local entity level, in all business lines directly or indirectly affected by IFRS 9.

IFRS 9 introduces two criteria for classification and measurement of financial assets: 1) an entity's business model for managing the financial assets, and 2) the contractual cash flow characteristics of the financial assets. As a result, a financial asset is measured at amortised cost ('AC') only if both of the following conditions are met: a) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows ('held to collect') and b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ('SPPI') on the principal amount outstanding. Measurement at fair value through other comprehensive income ('FVOCI') is applicable to financial assets held within a business model whose objective is achieved by both collecting contractual cash flows and selling the assets ('hold and sell') while the condition b) is also fulfilled. All other financial assets are measured at fair value through profit or loss ('FVTPL'). The main impacts resulting from the classification and measurement model upon transition to IFRS 9 are described below.

In respect of the business model criterion, the main changes relate to financial assets classified as available-for-sale and thus measured at FVOCI under IAS 39. Debt securities which are part of the portfolios connected to asset and liability management activities at a carrying amount RON 1 billion will be classified and measured at AC under IFRS 9 due to insignificant or infrequent sales expected.

In applying the business model criterion the Group has to assess the expected selling activity of financial assets. In the Group, sales due to increases in credit risk, sales close to assets' maturity, infrequent sales triggered by a non-recurring event (such as changes in regulatory environment, severe liquidity crisis) are considered as not contradicting the 'held to collect' business model. Other kinds of sales are expected to be insignificant as to their volume. As a result, sales are incidental in the 'held to collect' business model. On the other hand, in the 'hold and sell' business model the sales of debt securities are significant and frequent and thus they are integral to meeting the business model objectives. The Group will carry out such sales in order to optimise the liquidity position or to realise the fair value gains or losses.

Regarding the contractual cash flows characteristics criterion the Group concluded that the vast majority of its loan portfolio amounting to RON 33 billion which is currently classified as loans and receivables will continue to be measured at AC. The carrying amount of loans that will be measured at FVTPL is not material (RON 20 million); such loans typically bear interest mismatch features (e.g. floating rate loans with interest rate reset every year but their tenor being linked to a long term secondary market interest rate). This outcome reflects completion of all mitigation activities undertaken since 2015 across the Group to reduce the volume of loans which would otherwise have been subject to FVTPL measurement.

Investments in equity instruments at a carrying amount of approximately RON 22 million currently categorised as available-for-sale will be categorised as FVTPL. The new standard provides an option to designate non-trading equity instruments at FVOCI at initial recognition. The Group will make use of this option for some equity investments that represent strategic business relationships.

Regarding classification and measurement of financial liabilities, upon transition to IFRS 9, the Group has no impact.

The new impairment model requires recognition of credit loss allowances ('CLA') based on expected credit losses ('ECL') rather than only incurred credit losses as is the case under IAS 39. It applies to credit risk exposures stemming from debt instruments classified at AC or FVOCI, lease receivables, financial guarantee contracts and certain loan commitments.

For credit risk exposures that are not credit-impaired at initial recognition, BCR will recognise CLA at an amount equal to 12-month ECL (referred to as 'Stage 1') for as long as no significant increase in credit risk since initial recognition ('SICR') is identified at the reporting date. In the other cases, the CLA is measured at lifetime ECL and the related instruments are referred to as 'Stage 2', unless they are found to be credit-impaired at the reporting date (referred to as 'Stage 3'). For purchased or originated credit-impaired financial assets ('POCI'), only adverse changes in lifetime ECL after the initial recognition are distinctly recognised as CLA, whilst favourable changes are recognized as impairment gains increasing the carrying amount of the related POCI assets. The measurement of ECL reflects a probability-weighted outcome, the time value of money and reasonable and supportable forward-looking information.

2. ACCOUNTING POLICIES (continued)**2.5 Standards issued but not yet effective and not early adopted**

In the area of ECL modelling and CLA calculation, BCR has identified a number of key drivers, as follows:

a) the 'credit-impaired' definition

In respect of applying the 'credit-impaired' concept of IFRS 9, BCR generally adopted the approach of aligning it with the regulatory concept of 'default' for lending exposures. If the default status exists already at an exposure's initial recognition (e.g. in the context of a significant distressed restructuring), then that exposure is identified as POCI. Exposures classified as POCI as reported as "credit-impaired" if they are classified with 'default' status at reporting date

b) the SICR indicators applicable to not credit-impaired exposures

Across portfolios and product types, a number of quantitative and qualitative SICR indicators have been defined, in addition to the SICR indicator of 30 days-past-due.

Thus, SICR is quantitatively measured by reference to the adverse change, since instrument's initial recognition, in the current annualised remaining lifetime probability of default ('PD') and in the current 12-month PD. Significance of such change is assessed by reference to a combination of relative and absolute change thresholds. Current PDs are determined to reflect the current default risk as a 'point-in-time' measure and take into account also forward looking information. The thresholds are established at PD rating method level and are subject to initial and on-going validation.

Qualitative SICR indicators include forbearance-type flags, a work-out transfer flag as well as information from early-warning-system. The assignment of some specific qualitative indicators inherently relies on experienced credit risk judgment being exercised adequately and timely.

Upon transition to IFRS 9 the SICR has to be determined in respect of PDs which existed at instruments' initial recognition. Where retrospective identification PDs at initial recognition was not possible without undue cost or effort, BCR implemented the following approximation method: best possible rating for the relevant portfolio at the time

BCR doesn't apply the 'low credit risk exemption' allowed by IFRS 9

c) ECL modelling

The key risk parameters used in the measurement of ECLs - PD, loss given default ('LGD') and exposure at default ('EAD') - are derived from internally developed statistical models and other historical data that leverage regulatory models.

The PD describes a probability that a client will default on the related loan obligation. The 12-month PD reflects the estimated probability of default within one year from the reporting date, whilst the lifetime PD indicates the estimated probability of default until instrument's maturity and cumulates conditional marginal 12-month PD estimates attributable to each year until maturity. The applicable estimation methods include average default rate analysis and internal/external migration matrices and consider adjustments to the point-in-time-estimate and forward looking information.

The LGD captures the loss rate in the case of default. In general, the selection of estimation method depends on portfolio, and whether the curve is defined on LGD segment level.

The EAD that is attributable to any given future year throughout an on-balance exposure's remaining maturity is approximated on the basis of exposure's current gross carrying amount multiplied by an amortization coefficient that depends on exposure's contractual repayment type. For off-balance not credit-impaired exposures, the EAD approximation is based on the current nominal amount of the exposure, multiplied by the credit conversion factor.

d) Consideration of forward-looking information ('FLI')

Measurement of ECLs and SICR assessment require further consideration of FLI, which BCR has addressed by introducing a baseline forecast and a number of alternative scenarios for selected macroeconomic variables. These are derived, together with their probabilities of occurrence, as a deviation from baseline forecasts. Given multiple scenarios, the 'neutral' PD (and also LGD) are adjusted through macro models which link relevant macroeconomic variables with risk drivers. Thus, the unbiased, probability-weighted ECL is derived with the weights representing the occurrence probabilities of each macroeconomic scenario. Typical macroeconomic variables may include real gross domestic product, unemployment rate, inflation rate, production index as well as market interest rates. The selection of variables also depends on the availability of reliable forecasts.

e) Period of exposure to credit risk

Transition to IFRS 9 is expected to result in an decrease of the 2018 opening balance of credit loss allowances compared to the 2017 closing balance of loan loss provisions under IAS 39 (including provisions for off-balance exposures treated under IAS 37) by (6.5) %, thereof 2 % negatively impacts equity whilst the remaining change is equity neutral.

2. ACCOUNTING POLICIES (continued)
2.5 Standards issued but not yet effective and not early adopted

This expected decrease is the combined effect of:

- (i) + 1.95 % resulting from additional loss allowances recognized upon the initial application of the expected credit loss model to credit exposures in the scope of the impairment requirements of both IAS 39/IAS 37 and IFRS 9;
- (ii) - 9.43 % resulting from reversing loan loss provisions in respect of credit exposures in the scope of the impairment requirements of IAS 39 but outside the scope of the impairment requirements of IFRS 9 (such as loans measured at fair value through profit or loss under IFRS 9, originated credit impaired loans), and
- (iii) + 0.05% % resulting from new loss allowances in respect of credit exposures in the scope of the impairment requirements of IFRS 9 but for which no loan loss provisions were recognized under IAS 39 (such as financial assets which were previously classified as available-for-sale).

Overall, the IFRS 9 transition is expected to result in a before-tax decrease of Group's consolidated accounting equity by approximately RON 50 million, thereof approximately RON 70 million relates to retained earnings (accumulated effects which would have impacted profit or loss in previous periods, in connection with all financial instruments subject to classification-driven re-measurement and/or ECL calculation upon transition) and an approximately increase of RON 20 million in accumulated OCI (accumulated effects which would have impacted other comprehensive income in previous periods, in connection with both financial assets classified at FVOCI and financial liabilities retrospectively designated at FVTPL upon transition). Further, the associated before-tax reduction of the CET 1 ratio is estimated at -20 basis points (Basel 3 phase-in).

The related deferred tax impact depends on the fiscal treatment of the incremental differences between the tax values and the IFRS 9-based re-measured accounting values of the affected assets and liabilities, which can vary across the tax jurisdictions of the Group and which, in several of these jurisdictions is yet to be decided by the relevant fiscal authorities. Currently, the Group estimates that the consolidated deferred tax impact upon transition to IFRS 9 is likely to be favourable, meaning that it would mitigate the above estimates of decrease in accounting equity and CET 1. The Group does not apply the transitional provisions for IFRS 9 acc. to Art. 473a CRR when calculating regulatory own funds.

The new standard also resulted in amended IFRS requirements regarding presentation and disclosure. These are expected to change the nature and extent of the group's disclosures about its financial instruments particularly in the year of the adoption of the new standard. In anticipation of such changes, the Group has already implemented significant updates of the structure of the financial statements (both main components and explanatory notes). Such updates have also taken into account the applicable changes in the regulatory reporting requirements (notably FINREP related) as stipulated (or in advanced process of being decided) by the EU Commission or the relevant national regulators, respectively.

The following table reconciles the carrying amounts of financial assets, from their previous measurement categories in accordance with IAS 39 into their new measurement categories upon transition to IFRS 9 on 1 January 2018:

| Group | Measurement category | | Carrying value per IAS 39 (closing balance at 31 December 2017) | Remeasurement Effect | | | Carrying value per IFRS 9 (opening balance at 1 January 2018) |
|---|----------------------|-------------------|---|----------------------|-------------------|----------------|---|
| | IAS 39 | IFRS 9 | | ECL | Other | | |
| | | | | | Retained earnings | FVTOCI reserve | |
| in RON thousands | | | | | | | |
| Cash and cash equivalents | L&R | AC | 11,369,344 | (2,031) | | | 11,367,313 |
| Investments in debt securities | Trading assets | FVTPL (Voluntary) | 104,694 | - | - | - | 104,694 |
| Investments in debt securities | FVTPL | AC | 15,131 | (199) | 50 | - | 14,982 |
| Investments in debt securities | AFS | FVOCI | 5,290,435 | (2,683) | | 2,683 | 5,290,435 |
| Investments in debt securities | AFS | AC | 1,067,092 | (2,213) | | 12,043 | 1,076,922 |
| Investments in debt securities | HTM | AC | 14,756,894 | (2,785) | | - | 14,754,109 |
| Total investments in debt securities | | | 21,234,246 | (7,880) | 50 | 14,726 | 21,241,142 |
| Investments in equity securities | AFS | FVOCI | 220,760 | - | | - | 220,760 |
| Investments in equity securities | AFS | FVTPL (voluntary) | 21,663 | - | (9,336) | 9,336 | 21,663 |
| Total investments in equity securities | | | 242,423 | - | (9,336) | 9,336 | 242,423 |
| Due from other banks | L&R | AC | 2,215,113 | (16,216) | | | |
| Loans and advances to customers | L&R | AC | 33,469,878 | (46,994) | | | 33,422,884 |
| Loans and advances to customers | L&R | FVTPL (mandatory) | 21,005 | | (396) | | 20,609 |
| Total loans and advances to customers | | | 33,490,883 | (46,994) | (396) | | 33,443,493 |
| Total financial assets | | | 68,552,009 | (73,121) | (9,682) | 24,062 | 66,294,371 |
| Total off Balance sheet items | | | | 11,909 | | | |
| Tax effect | | | | (688) | | (3,652) | |
| Total IFRS 9 effect | | | | (61,900) | (9,682) | 20,410 | |

2. ACCOUNTING POLICIES (continued)
2.5 Standards issued but not yet effective and not early adopted

| Bank | Measurement category | | Carrying value per IAS 39 (closing balance at 31 December 2017) | Remeasurement Effect | | | Carrying value per IFRS 9 (opening balance at 1 January 2018) |
|---|----------------------|-------------------|---|----------------------|-------------------|----------------|---|
| | IAS 39 | IFRS 9 | | ECL | Other | | |
| | | | | | Retained earnings | FVTOCI reserve | |
| in RON thousands | | | | | | | |
| Cash and cash equivalents | L&R | AC | 11,245,387 | (738) | - | - | 11,244,649 |
| Investments in debt securities | Trading assets | FVTPL (Voluntary) | 104,694 | - | - | - | 104,694 |
| Investments in debt securities | FVTPL | AC | 15,131 | (199) | 50 | - | 14,982 |
| Investments in debt securities | AFS | FVOCI | 5,262,773 | (1,450) | - | 1,450 | 5,262,773 |
| Investments in debt securities | AFS | AC | 642,029 | (2,213) | - | 11,618 | 651,434 |
| Investments in debt securities | HTM | AC | 13,375,729 | (276) | - | - | 13,375,453 |
| Investments in debt securities | | | 19,400,356 | (4,138) | 50 | 13,068 | 19,409,336 |
| Investments in equity securities | AFS | FVOCI | 220,760 | - | - | - | 220,760 |
| Investments in equity securities | AFS | FVTPL (voluntary) | 21,430 | - | (9,336) | 9,336 | 21,430 |
| Total investments in equity securities | | | 242,190 | - | (9,336) | 9,336 | 242,190 |
| Due from other banks | L&R | AC | 2,420,035 | (16,161) | - | - | 2,403,874 |
| Loans and advances to customers | L&R | AC | 31,999,301 | (48,629) | - | - | 31,950,672 |
| Loans and advances to customers | L&R | FVTPL (mandatory) | 21,005 | - | (396) | - | 20,609 |
| Total loans and advances to customers | | | 32,020,306 | (48,629) | (396) | - | 31,971,281 |
| Total financial assets | | | 65,328,274 | (69,666) | (9,682) | 22,404 | 65,271,330 |
| Total off Balance sheet items | | | | 11,922 | | | |
| Tax effect | | | | 59 | | (3,585) | |
| Total IFRS 9 effect | | | | (57,685) | (9,682) | 18,819 | |

IFRS 15 Revenue from Contracts with Customers (IASB Effective Date: 1 January 2018) IFRS 15 was issued in May 2014 and is effective for annual periods beginning on or after 1 January 2018. Clarifications to IFRS 15 were issued in April 2016. IFRS 15 specifies how and when an entity recognises revenue from contracts with customers. It also requires such entities to provide users of financial statements with more informative and more relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers. Also in the areas of variable considerations and capitalisation of cost IFRS 15 provides modified regulations. The standard is not focused on recognition of revenues from financial instruments. Hence, on the basis of the analyses performed throughout 2017, the application of this standard is not expected to have a significant impact on the Group's financial statements.

IFRS 16 Leases (IASB Effective Date: 1 January 2019) In January 2016, the IASB issued IFRS 16 being effective for annual periods beginning on or after 1 January 2019. IFRS 16 specifies the depiction of lease arrangements in the financial statements. Compared to the previous standard IAS 17, there is a fundamental alteration in respect of the recognition of operating leasing arrangements for the lessee. As defined in IFRS 16, the standard requires the lessee to recognise a right of use asset on the debit side of the balance sheet as well as a corresponding lease liability on the credit side of the balance sheet except for immateriality in cases of short term leasing arrangements and small ticket leasing arrangements for low-value assets. By contrast, accounting changes for the lessor are only minor compared to IAS 17. Compared to IAS 17, the notes will be more comprehensive under IFRS 16.

The analysis and planning of proper IT solutions for the requirements of IFRS 16 have continued throughout 2017. At the same time the assessment of the contracts has been in focus. The role out of proper IT structure is planned to be realised in 2018.

Since the analysis of the impact of IFRS 16 has not yet been completed, no quantitative estimates with respect to the effects of the transition to IFRS 16 can be made at this time. However, the Group does not expect a significant impact on its balance sheet and profit and loss account from the application of IFRS 16.

Regarding the transition method the Group is planning to follow the modified retrospective approach with recognition of the adjustments arising out of the first time application of IFRS 16, if any, in equity at the date of initial application. The applicable discount rate will be the one determined at the date of initial application.

Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions (IASB effective date: 1 January 2018) Amendments to IFRS 2 were issued in June 2016 and are effective for annual periods beginning on or after 1 January 2018. The amendments clarify treatment for the effects of vesting conditions on a cash-settled share-based payment transaction, the classification of a share-based payment with net settlement features for withholding tax obligations and the accounting for modifications of share-based payment transactions from cash-settled to equity-settled. Application of these amendments is not expected to have a significant impact on the Group's financial statements.

2. ACCOUNTING POLICIES (continued)**2.5 Standards issued but not yet effective and not early adopted**

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement (IASB effective date 1 January 2019) Amendments to IAS 19 were issued in February 2018 and are effective for annual periods beginning on or after 1 January 2019. The amendments require that if a plan amendment, curtailment or settlement occurs, it is mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement. In addition, the amendments clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. Application of these amendments is not expected to have a significant impact on The Group's financial statements.

Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures (IASB effective date 1 January 2019) Amendments to IAS 39 were issued in October 2017 and are effective for annual periods beginning on or after 1 January 2019. The amendments clarify that a company applies IFRS 9 Financial Instruments including its impairment requirements to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture. Application of these amendments is not expected to have a significant impact on The Group's financial statements.

Amendments to IAS 40: Transfers of Investment Property (IASB effective date: 1 January 2018) Amendments to IAS 40 were issued in December 2016 and are effective for annual periods beginning on or after 1 January 2018. The amendments reinforce the principle for transfers into, or out of, investment property in IAS 40 and specify that such a transfer should only be made when there has been a change in use of the property. Application of these amendments is not expected to have a significant impact on The Group's financial statements.

Annual Improvements to IFRSs 2014-2016 Cycle (IASB effective date: 1 January 2017 and 1 January 2018) In December 2016, the IASB issued a set of amendments to various standards. The amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018. Application of these amendments is not expected to have a significant impact on The Group's financial statements.

Annual Improvements to IFRSs 2015-2017 Cycle (IASB effective date: 1 January 2019) In December 2017, the IASB issued a set of amendments to various standards. The amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 are effective for annual periods beginning on or after 1 January 2019. Application of these amendments is not expected to have a significant impact on The Group's financial statements.

IFRIC 22: Foreign Currency Transactions and Advance Consideration (IASB effective date: 1 January 2018) IFRIC 22 was issued in December 2016 and is effective for annual periods beginning on or after 1 January 2018. The interpretation relates to considerations denominated in a foreign currency received or paid in advance of the recognition of the related asset, expense or income. It clarifies, that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability in such cases. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. Application of the interpretation is not expected to have a significant impact on The Group's financial statements.

IFRIC 23: Uncertainty over Income Tax Treatments (IASB effective date: 1 January 2018) IFRIC 23 was issued in June 2017 and is effective for annual periods beginning on or after 1 January 2019. The interpretation is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. An entity is required to use judgment to determine whether each tax treatment should be considered independently or whether some tax treatments should be considered together. If the entity concludes that it is not probable that a particular tax treatment is accepted by a taxation authority, the entity has to use the most likely amount or the expected value of the tax treatment. Otherwise the treatment used in the tax filings is applied. An entity has to reassess its judgments and estimates if facts and circumstances change. Application of the interpretation is not expected to have a significant impact on The Group's financial statements.

3. NET INTEREST INCOME

| in RON thousands | Group | | Bank | |
|--|------------------|------------------|------------------|------------------|
| | 2017 | 2016 | 2017 | 2016 |
| Interest Income | | | | |
| Loans and advances to customers | 1,476,508 | 1,553,704 | 1,438,218 | 1,554,336 |
| Held-to-maturity investments | 440,122 | 411,219 | 440,122 | 411,219 |
| Available-for-sale financial assets | 207,263 | 237,938 | 137,506 | 149,370 |
| Finance lease receivables | 52,516 | 51,272 | - | - |
| Derivatives held for trading | 35,016 | 48,986 | 35,016 | 48,986 |
| Due from other banks | 2,881 | 11,748 | 7,242 | 11,748 |
| Reverse repurchase receivables | 10,522 | 2,917 | 10,522 | 2,917 |
| Cash and cash equivalents | 5,857 | 7,884 | 4,582 | 5,945 |
| Other | 5,819 | 42,532 | 5,555 | 42,322 |
| Total interest income | 2,236,504 | 2,368,200 | 2,078,763 | 2,226,843 |
| Interest expenses | | | | |
| Term deposits of individuals | (124,901) | (184,239) | (60,207) | (111,442) |
| Term placements of other banks | (110,835) | (167,618) | (101,238) | (157,356) |
| Subordinated loans | (101,365) | (97,772) | (101,365) | (97,772) |
| Term deposits of legal entities | (49,028) | (30,346) | (51,070) | (32,295) |
| Debt securities in issue [Promissory notes issued] | (36,457) | (42,422) | (36,457) | (42,422) |
| Other borrowed funds | (17,220) | (25,181) | (17,220) | (25,181) |
| Derivatives held for trading | (16,150) | (23,500) | (16,150) | (23,500) |
| Repurchase transactions | (7,538) | (2,181) | (7,538) | (2,181) |
| Overnight placements of other banks | (1,439) | (900) | (1,439) | (900) |
| Other | (7,374) | (7,346) | (7,352) | (7,331) |
| Total interest expense | (472,307) | (581,505) | (400,036) | (500,380) |
| Net interest income | 1,764,197 | 1,786,695 | 1,678,727 | 1,726,463 |

In the context of low rates market environment, the Group managed to almost offset the decrease in interest income by the decrease in interest expenses.

Interest income from loans and receivables position includes also interest income from impaired loans in amount of RON 47,090 thousands (2016: RON 81,013 thousands) for the Group and RON 46,609 thousands (2016: RON 79,730 thousands) for the Bank.

For 2016, other interest income includes the recognition of the FV adjustment amortized after the termination of FV hedges in 2016 (+39mn RON).

4. NET FEES AND COMMISSION INCOME

| in RON thousands | Group | | Bank | |
|---|------------------|------------------|------------------|------------------|
| | 2017 | 2016 | 2017 | 2016 |
| Securities | 7,517 | 8,756 | 7,517 | 8,756 |
| Securities Transfer orders | 7,517 | 8,756 | 7,517 | 8,756 |
| Clearing and settlement | 13,205 | 12,060 | 13,205 | 12,060 |
| Asset management | 33,906 | 26,993 | - | - |
| Custody | 16,562 | 16,913 | 16,563 | 16,916 |
| Payment services | 383,618 | 397,207 | 380,947 | 395,250 |
| Payment services - Card business | 86,380 | 96,824 | 84,561 | 95,262 |
| Payment services - Others | 297,239 | 300,383 | 296,386 | 299,988 |
| Customer resources distributed but not managed | 133,308 | 124,878 | 132,961 | 124,454 |
| Insurance products | 62,529 | 50,669 | 58,768 | 46,792 |
| Building society brokerage | 380 | 1,121 | 398 | 1,640 |
| Foreign exchange transactions | 18,815 | 16,089 | 18,815 | 16,089 |
| Other | 51,585 | 56,998 | 54,980 | 59,933 |
| Lending business | 111,624 | 98,603 | 111,372 | 99,427 |
| Loan commitments given, Loan commitments received | 20,359 | 18,429 | 20,359 | 18,429 |
| Guarantees given | 27,230 | 23,744 | 27,352 | 24,758 |
| Other lending business | 64,035 | 56,430 | 63,661 | 56,241 |
| Other | 145,597 | 153,902 | 129,655 | 135,951 |
| Fee and commission income | 845,336 | 839,312 | 792,218 | 792,814 |
| Securities | (3,358) | (3,899) | (3,358) | (3,899) |
| Securities Transfer orders | (3,358) | (3,899) | (3,358) | (3,899) |
| Clearing and settlement | (25,736) | (31,572) | (25,736) | (31,572) |
| Custody | (4,825) | (4,996) | (3,612) | (3,742) |
| Payment services | (70,767) | (54,581) | (69,330) | (53,484) |
| Payment services - Card business | (28,465) | (28,087) | (27,428) | (27,308) |
| Payment services - Others | (42,302) | (26,494) | (41,902) | (26,176) |
| Customer resources distributed but not managed | (2,669) | (1,770) | (2,669) | (1,770) |
| Foreign exchange transactions | (2,669) | (1,770) | (2,669) | (1,770) |
| Lending business | (16,365) | (18,127) | (7,851) | (12,689) |
| Guarantees received | (4,958) | (3,336) | (253) | (1,216) |
| Other lending business | (11,406) | (14,791) | (7,598) | (11,473) |
| Other | (20,878) | (15,435) | (18,502) | (13,572) |
| Fee and commission expenses | (144,598) | (130,380) | (131,059) | (120,728) |
| Net Commission income | 700,738 | 708,932 | 661,160 | 672,086 |

5. DIVIDEND INCOME

| in RON thousands | Group | | Bank | |
|--|--------------|--------------|---------------|--------------|
| | 2017 | 2016 | 2017 | 2016 |
| Available-for-sale financial assets (i) | 4,155 | 2,878 | 4,155 | 2,878 |
| Dividend income from equity investments (ii) | - | - | 15,717 | 2,126 |
| Dividend income | 4,155 | 2,878 | 19,872 | 5,004 |

- (i) Dividends received from investments available for sale: VISA, Mastercard, Biroul de Credit, Transfond, Bursa de Valori Bucuresti, BCR Asigurari de Viata.
- (ii) Dividends from equity investments in 2016 and 2017 were mainly received from BCR Pensii, BCR Payments and investments in associate Fondul de Garantare a Creditului Rural IFN SA (and eliminated at group level).

6. NET TRADING AND FAIR VALUE RESULT

| in RON thousands | Group | | Bank | |
|--|----------------|----------------|----------------|----------------|
| | 2017 | 2016 | 2017 | 2016 |
| Net Trading result | 329,191 | 313,020 | 329,214 | 313,067 |
| Securities and derivatives trading | 44,112 | 55,811 | 44,134 | 55,811 |
| Foreign exchange transactions (i) | 285,079 | 257,209 | 285,080 | 257,256 |
| Gains or losses on financial assets and liabilities designated at fair value through profit or loss | 1,689 | (1,148) | 1,689 | (1,148) |
| Gain / (loss) from measurement / sale of financial assets designated at fair value through profit or loss | 1,689 | (1,148) | 1,689 | (1,148) |
| Total net trading and fair value result | 330,880 | 311,872 | 330,903 | 311,919 |

- (i) Increased slightly due to Foreign exchange transactions, which include gains and losses mainly from money market instruments and also from currency swaps, spot and forward contracts.

7. RENTAL INCOME FROM INVESTMENT PROPERTIES AND OTHER OPERATING LEASES

| in RON thousands | Group | | Bank | |
|---------------------|---------------|---------------|--------------|--------------|
| | 2017 | 2016 | 2017 | 2016 |
| Investment property | 130 | 239 | - | - |
| Operating leases | 63,159 | 53,310 | 9,840 | 1,014 |
| Total | 63,289 | 53,549 | 9,840 | 1,014 |

Operating leases are mainly from car fleets rentals and other buildings which do not meet the criteria for investment property. At Bank level, the increase compared to previous year is due to the increase of rented properties due to merger. Reported increase is in line with expectation of operating leasing business of the Group.

8. GENERAL ADMINISTRATIVE EXPENSES

| in RON thousands | Group | | Bank | |
|--|--------------------|--------------------|--------------------|--------------------|
| | 2017 | 2016 | 2017 | 2016 |
| Personnel expenses (i) | (741,664) | (729,874) | (661,913) | (657,036) |
| Other administrative expenses (ii) | (635,573) | (671,594) | (652,791) | (804,923) |
| Depreciation and amortisation (iii) | (166,983) | (169,029) | (117,269) | (105,780) |
| Total | (1,544,220) | (1,570,497) | (1,431,973) | (1,567,739) |
| Personnel expenses | | | | |
| | 2017 | 2016 | 2017 | 2016 |
| Wages and salaries | (588,057) | (567,831) | (525,702) | (511,505) |
| Compulsory social security | (118,975) | (130,255) | (105,602) | (117,419) |
| Long-term employee provisions | (1,811) | (1,477) | (1,676) | (1,346) |
| Other personnel expenses | (32,822) | (30,311) | (28,933) | (26,766) |
| Total | (741,665) | (729,874) | (661,913) | (657,036) |
| Other administrative expenses | | | | |
| | 2017 | 2016 | 2017 | 2016 |
| Payments into deposit insurance fund | (10,153) | (65,271) | (8,854) | (58,621) |
| IT expenses | (192,944) | (178,115) | (186,919) | (172,265) |
| Expenses for office space | (142,692) | (130,301) | (134,008) | (239,163) |
| Office operating expenses | (33,165) | (40,734) | (90,735) | 6,509 |
| Security services | (16,468) | (14,072) | (13,267) | (11,588) |
| Operating leases | (57,450) | (52,317) | (54,851) | (156,195) |
| Advertising / Marketing | (44,805) | (43,309) | (42,132) | (40,608) |
| Legal and consulting costs | (62,852) | (84,182) | (58,659) | (79,526) |
| Sundry administrative expenses | (75,044) | (63,293) | (63,366) | (53,466) |
| Total | (635,573) | (671,594) | (652,791) | (804,923) |
| Depreciation and amortisation | | | | |
| | 2017 | 2016 | 2017 | 2016 |
| Software and other intangible assets | (45,080) | (70,823) | (42,154) | (67,471) |
| Real estate used by the Group /Bank | (40,916) | (36,767) | (39,817) | (14,439) |
| Investment Property | - | (64) | - | - |
| Office furniture and equipment and sundry property and equipment | (80,987) | (61,375) | (35,298) | (23,870) |
| Total | (166,983) | (169,029) | (117,269) | (105,780) |

- (i) Personnel expenses for the Group in 2017 are higher with RON 11,791 thousands compared with 2016 driven mainly by higher accruals and increased FTEs in Subsidiaries. Long term employee provisions are described in Note 30. Compulsory social security includes mainly contributions for State pensions. Contributions for private pensions are included in other personnel expenses.

The number of Own employees of the Bank at 31 December 2017 was 6,126 employees (31 December 2016: 6,134 employees).

The number of Own employees of the Group at 31 December 2017 was 7,265 employees (31 December 2016: 7,078 employees).

- (ii) Other administrative expenses for the Group in 2017 are lower with RON 36,024 thousands compared with 2016, driven mainly by positive impact from lower annual contribution to deposit insurance fund and decrease on legal & business consultancy position partly offset by higher office space costs related to new HQ building and higher software maintenance. Due to merger of real estate subsidiaries, the operating leases expense on Bank decreased in 2017.

The expense with deposit insurance fund is calculated according to Regulation 1/2016 issued by Deposits insurance fund, based on eligible deposits volume as of end of previous year and several risk indicators and it is booked as general administrative expense in the current year. The amount was paid on 26 April 2017.

- (iii) Depreciation and amortization for the Group in 2017 is lower with RON 2,043 thousands compared with 2016 driven mainly by reduction of IT depreciation due to changes in useful lives for software applications, partially offset by higher investments for clients (Depreciation on operating lease), buildings related refurbishments and other property investments.

NOTES TO THE FINANCIAL STATEMENTS

Consolidated and Separate for the year ended 31 December 2017

8. GENERAL ADMINISTRATIVE EXPENSES (continued)

The key management remuneration paid during 2017 were of RON 12,962 thousands (2016: RON 11,032 thousands).

| | 2017 | | | | 2016 | | | |
|---|---------|----------------|-------------------|----------------|---------|----------------|-------------------|----------------|
| | Expense | Employer taxes | Accrued liability | Employer taxes | Expense | Employer taxes | Accrued liability | Employer taxes |
| Short-term benefits | 8,730 | 1,144 | 1,166 | 26 | 7,688 | 1,138 | 728 | 160 |
| Salaries | 6,650 | 856 | 1,138 | 26 | 6,321 | 964 | 728 | 160 |
| Short-term bonus | 615 | 140 | - | - | - | - | - | - |
| Benefits in kind | 1,465 | 149 | 28 | 1 | 1,367 | 173 | - | - |
| Post-employment benefits | - | - | - | - | - | - | - | - |
| Other long-term employee benefits | - | - | - | - | - | - | - | - |
| Share-based compensation: | (21) | (5) | 15,715 | 354 | 9 | 2 | 14,661 | 3,339 |
| Cash-settled share-based compensation (bonus cash) | (21) | (5) | 15,715 | 354 | 9 | 2 | 14,661 | 3,339 |
| Equity-settled share-based compensation (bonus non- cash) | - | - | - | - | - | - | - | - |

The actual cash out for share based compensation was of 3,947,964 RON in 2017 and 3,015,272 in 2016.

The average numbers of own employees during the financial years are presented below (weighted according to the period of employment):

| | 2017 | 2016 |
|---|--------------|--------------|
| Domestic | 7,017 | 7,046 |
| Banca Comerciala Romana | 6,093 | 6,190 |
| BCR Leasing IFN SA | 104 | 90 |
| BCR Pensii, Societate de Administrare a Fondurilor de Pensii Private SA | 46 | 44 |
| BCR Banca pentru Locuinte SA | 81 | 75 |
| Suport Colect SRL | 3 | - |
| CIT One SRL | 603 | 562 |
| BCR Real Estate Management SRL | - | 1 |
| BCR Fleet Management SRL | 7 | 5 |
| BCR Payments SPV | 80 | 79 |
| Abroad | 84 | 74 |
| BCR Chisinau SA | 84 | 74 |
| Total | 7,101 | 7,120 |

9. GAINS/LOSSES FROM FINANCIAL ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

| in RON thousands | Group | | Bank | |
|--|------------|----------------|------------|----------------|
| | 2017 | 2016 | 2017 | 2016 |
| Gain / (loss) from sale of financial assets available for sale | 151 | 111,747 | 151 | 111,754 |
| Total | 151 | 111,747 | 151 | 111,754 |

In June 2016, VISA Europe LTD shares were acquired by VISA Inc. which resulted in a gain of RON 110,228 thousands.

10. NET IMPAIRMENT GAIN ON FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

| in RON thousands | Group | | Bank | |
|---|-----------------|----------------|-----------------|----------------|
| | 2017 | 2016 | 2017 | 2016 |
| Available-for-sale financial assets | (572) | | (566) | |
| Loans and receivables | (31,715) | 282,003 | (22,002) | 219,301 |
| Allocation to risk provisions for loans and receivables | (740,948) | (900,627) | (661,070) | (823,596) |
| Release of risk provisions for loans and receivables | 754,446 | 1,029,995 | 604,059 | 906,065 |
| Direct write-offs of loans and receivables | (135,704) | (691,674) | (25,460) | (580,197) |
| Recoveries on written-off loans and sale of loans | 90,491 | 844,309 | 60,469 | 717,029 |
| Held to maturity instruments - allocations | (131) | (2,013) | (131) | (2,013) |
| Total | (32,418) | 279,990 | (22,699) | 217,288 |

BCR Group continued to strengthen its recovery capabilities aiming to improve the overall quality of the portfolio. Despite the allocations registered by Corporate segments driven mainly by one-off events, the on-going efforts focused on cash recoveries led to results in line with the expectations ending the year with a provision allocation of RON 32,419 thousands. The result is also sustained by the Retail portfolio, with an important contribution coming from positive adjustments in the reassessment of the collective provisions given improvement in portfolio quality.

11. OTHER OPERATING RESULT

| in RON thousands | Group | | Bank | |
|--|------------------|------------------|------------------|------------------|
| | 2017 | 2016 | 2017 | 2016 |
| Other income, of which: | 246,790 | 252,160 | 161,288 | 182,475 |
| Other provisions - net release/ (allocation) | 33,082 | - | 43,892 | - |
| Gains on other assets | 104,791 | 130,590 | 25,769 | 64,358 |
| Off balance sheet provisions - net release/ (allocation) | - | 21,050 | - | 21,066 |
| Other income | 108,917 | 100,520 | 91,627 | 97,051 |
| Other expense, of which: | (653,049) | (771,075) | (617,498) | (651,403) |
| Other provisions - net release/ (allocation) | - | (305,494) | - | (287,492) |
| Losses on other assets | (119,032) | (123,475) | (28,470) | (65,327) |
| Off balance sheet provisions - net release/ (allocation) | (124,825) | - | (124,756) | - |
| Impairment of subsidiaries(i) | - | - | (97,410) | (45,855) |
| Impairment of tangible and intangible assets (ii) | (73,363) | (1,461) | (70,375) | (1,388) |
| Recovery and resolution fund | (69,455) | (24,706) | (64,951) | (20,232) |
| Other taxes | (21,573) | (20,747) | (15,712) | (4,290) |
| Other expenses (iii) | (244,802) | (295,192) | (215,824) | (226,818) |
| Total | (406,259) | (518,915) | (456,210) | (468,928) |

- (i) Impairment of subsidiaries includes allocation of impairment of subsidiaries in amount of RON 97,410 thousands (31 December 2016 RON 45,855 thousands) which is eliminated at Group level. Further details are presented in Note 28.
- (ii) For 2017, the amount includes impairment for property, plant and equipment of RON (19,940) thousands for the Group and RON (16,952) thousands for the Bank and impairment of software of RON (53,423) thousands.
- (iii) Includes sundry expenses: insurance, litigations, penalties.

12. TAXES ON INCOME

Taxes on income are made up of current taxes on income calculated in each of the Group companies based on the results reported for tax purposes, and the change in deferred taxes.

| in RON thousands | Group | | Bank | |
|---------------------------------|------------------|------------------|------------------|------------------|
| | 2017 | 2016 | 2017 | 2016 |
| Tax asset (expense) / income | (79,789) | (7,692) | (80,112) | - |
| Deferred tax (expense) / income | (157,219) | (122,736) | (156,600) | (119,955) |
| Total | (237,008) | (130,428) | (236,712) | (119,955) |

The following table reconciles the income taxes reported in the income statement to the pre-tax profit/loss multiplied by the nominal Romanian tax rate.

12. TAXES ON INCOME (continued)

| in RON thousands | Group | | Bank | |
|--|------------------|------------------|------------------|------------------|
| | 2017 | 2016 | 2017 | 2016 |
| Pre-tax profit/(loss) | 905,135 | 1,170,491 | 807,022 | 1,006,641 |
| Income tax expense for the financial year at the domestic statutory tax rate (16%) | (144,822) | (187,279) | (129,124) | (160,967) |
| Impact of tax-exempt earnings of investments and other tax-exempt income | 56,127 | 74,913 | 56,127 | 46,906 |
| Impact of other elements | (238,260) | (18,062) | (253,662) | (5,894) |
| Tax income not attributable to the reporting period | 89,947 | - | 89,947 | - |
| Income tax (expense) / release reported in the income statement | (237,008) | (130,428) | (236,712) | (119,955) |
| The effective tax rate | 26.18% | 11.14% | 29.33% | 11.92% |

The elements similar to expenses include the deduction of fiscal depreciation and the deduction of impairment of fixed assets.

The elements similar to revenues, considered by the Bank include the taxation of part of revaluation reserve for which Bank has deduction right and the elimination of the impact of deductible expenses related to the activity for which the Bank pays specific tax.

For the Bank, the variation of income tax between 2016 and 2017 was mainly due to the following:

- Decrease of the accounting result;
- Significant variation on DT, mainly due to the reversal of DTA for impairment allowance (See note 26);
- Impact of the tax income not attributable to the reporting period, respectively additional income tax expense due to ANAF Tax audit (RON 78,511 thousands) and additional tax revenue recognized as an uncertain tax asset (RON 168,458 thousands). The Bank is currently challenging the results of the fiscal audit. The non-current current tax asset refers to tax on the impairment of subsidiaries that the Bank considers to be deductible from fiscal perspective. Please see also Note 26 Tax assets and liabilities for further details.

Following the adjustments imposed by ANAF tax audit and the fiscal profit registered in 2017, the Bank recovered the entire fiscal loss, being in a fiscal profit position as at 31 December 2017.

The tax effects relating to each component of other comprehensive income are presented below:

| in RON thousands | Group | | | | | |
|---|-------------------|-----------------------|-------------------|-------------------|-----------------------|-------------------|
| | 2017 | | | 2016 | | |
| | Before-tax amount | Tax benefit/(expense) | Net-of-tax amount | Before-tax amount | Tax benefit/(expense) | Net-of-tax amount |
| Available for sale-reserve (including currency translation) | 288,082 | (46,090) | 241,992 | 334,403 | (53,479) | 280,924 |
| Remeasurement of net gain (losses) on benefit plans | 82,546 | (13,207) | 69,339 | 77,316 | (12,371) | 64,945 |
| Currency translation reserve of foreign subsidiary | (18,502) | - | (18,502) | (23,541) | - | (23,541) |
| Other comprehensive income | 352,126 | (59,297) | 292,829 | 388,178 | (65,850) | 322,328 |

| in RON thousands | Bank | | | | | |
|---|-------------------|-----------------------|-------------------|-------------------|-----------------------|-------------------|
| | 2017 | | | 2016 | | |
| | Before-tax amount | Tax benefit/(expense) | Net-of-tax amount | Before-tax amount | Tax benefit/(expense) | Net-of-tax amount |
| Available for sale-reserve (including currency translation) | 288,452 | (46,152) | 242,300 | 314,895 | (50,383) | 264,512 |
| Remeasurement of net gain (losses) on benefit plans | 82,546 | (13,206) | 69,340 | 77,396 | (12,382) | 65,014 |
| Other comprehensive income | 370,998 | (59,358) | 311,640 | 392,291 | (62,765) | 329,526 |

13. DIVIDENDS PAID

No dividends were paid in 2017 and 2016.

14. CASH AND CASH BALANCES

| in RON thousands | Group | | Bank | |
|--|-------------------|-------------------|-------------------|-------------------|
| | 2017 | 2016 | 2017 | 2016 |
| Cash on hand | 4,712,308 | 4,333,183 | 4,694,799 | 4,322,634 |
| Cash balances with the central bank (other than mandatory reserve deposits) | 59,767 | 155,452 | - | - |
| Mandatory cash balances with central banks | 5,917,345 | 7,267,338 | 5,895,098 | 7,246,274 |
| Correspondent accounts and overnight placements with other banks | 354,868 | 155,922 | 330,434 | 79,970 |
| Reverse sale and repurchase agreements with other banks with original maturities of less than three months | 325,055 | - | 325,055 | - |
| Total cash and cash balances | 11,369,344 | 11,911,895 | 11,245,387 | 11,648,878 |

The current accounts held by the Bank with National Bank of Romania ensure the compliance with minimum mandatory reserves requirements of National Bank. Mandatory reserve rates at the end of 2017 were for RON 8% (December 2016: 8%) and for foreign currencies 8% (December 2016: 10%) both with residual maturity of less than 2 years from the end of the reporting period and for debts with a residual maturity of more than 2 years with the repayment, transfer and early withdrawal clauses, respectively 0% for the other debts included in the calculation base.

The Group has a right to sell or repledge securities received under reverse sale and repurchase agreements in the absence of default of the borrower.

| in RON thousands | Over-collateralised assets | | Under-collateralised assets | |
|--|------------------------------|--------------------------|------------------------------|--------------------------|
| | Carrying value of the assets | Fair value of collateral | Carrying value of the assets | Fair value of collateral |
| Credit institutions | | | | |
| Reverse sale and repurchase agreements with other banks with original maturities of less than three months | 325,055 | 345,909 | - | - |

15. DERIVATIVES – HELD FOR TRADING

| in RON thousands | Notional amount | 2017 Fair value | | Notional amount | 2016 Fair value | |
|---|------------------|-----------------|---------------|------------------|-----------------|---------------|
| | | Positive | Negative | | Positive | Negative |
| | | Group / Bank | | | | |
| Derivatives held in Trading book | 4,907,933 | 20,459 | 21,507 | 5,528,136 | 28,371 | 30,091 |
| Interest rate instruments and related derivatives | 4,288,532 | 18,331 | 19,591 | 5,040,753 | 27,587 | 29,245 |
| Equity instruments and related derivatives | 147,573 | - | - | 242,967 | - | 198 |
| Foreign exchange trading and related derivatives | 471,828 | 2,128 | 1,916 | 220,196 | 651 | 515 |
| Commodities and related derivatives | - | - | - | 24,220 | 133 | 133 |
| Derivatives held in Banking Book | 3,235,945 | 20,990 | 23,154 | 3,529,041 | 45,115 | 8,300 |
| Interest rate instruments and related derivatives | 423,342 | 20,766 | 1,066 | 532,382 | 37,939 | 1,816 |
| Equity instruments and related derivatives | 155,420 | - | - | 243,038 | 198 | - |
| Foreign exchange trading and related derivatives | 2,657,183 | 224 | 22,088 | 2,753,621 | 6,978 | 6,484 |
| Total | 8,143,878 | 41,449 | 44,661 | 9,057,177 | 73,486 | 38,391 |

Trading book portfolio decreased in 2017 on both asset side and liability due to lower valuation on interest rate derivatives.

Banking book portfolio had a significant decrease on FX derivatives due to shift of cross currency swaps from asset side in 2016 to liability side in 2017. Interest rate derivatives result decreased due to a combined effect of lower valuation and expiring trades not replaced by new tickets.

16. OTHER TRADING ASSETS

| in RON thousands | Group | | Bank | |
|--|---------------|----------------|---------------|----------------|
| | 2017 | 2016 | 2017 | 2016 |
| Equity instruments | - | 538 | - | 538 |
| Debt securities | 63,245 | 559,175 | 63,245 | 559,175 |
| General governments (i) | 63,245 | 559,175 | 63,245 | 559,175 |
| Financial assets held for trading | 63,245 | 559,713 | 63,245 | 559,713 |

- (i) Debt securities include: treasury bills and bonds denominated in RON. The amount significantly decreased during 2017 due to sale of treasury bills and bonds, both issued by Ministry of Public Finance.

17. FINANCIAL ASSETS – AT FAIR VALUE THROUGH PROFIT OR LOSS

| in RON thousands | Group | | Bank | |
|---|---------------|---------------|---------------|---------------|
| | 2017 | 2016 | 2017 | 2016 |
| Debt securities | 15,131 | 15,319 | 15,131 | 15,319 |
| General governments (i) | 15,131 | 15,319 | 15,131 | 15,319 |
| Total financial assets designated at fair value through profit or loss | 15,131 | 15,319 | 15,131 | 15,319 |

- (i) Debt securities issued by municipalities.

The financial assets designated at fair value through profit or loss are part of a group of financial instruments that together are managed on a fair value basis.

Financial assets past due are presented in Note 39.5 Credit Risk.

18. FINANCIAL ASSETS – AVAILABLE FOR SALE

| in RON thousands | Group | | Bank | |
|--|------------------|------------------|------------------|------------------|
| | 2017 | 2016 | 2017 | 2016 |
| Equity instruments (i) | 242,422 | 197,435 | 242,190 | 197,214 |
| Debt securities (ii) | 6,357,528 | 5,376,652 | 5,904,802 | 4,648,089 |
| General governments | 6,357,528 | 5,367,973 | 5,904,802 | 4,648,089 |
| Credit institutions | - | 8,679 | - | - |
| Total available-for-sale financial assets | 6,599,950 | 5,574,087 | 6,146,992 | 4,845,303 |

- (i) Equity instruments include investments in shares quoted on Bucharest Stock Exchange and international markets. During 2017 the measurement of equity investments at cost changed to fair value. The impact in available for sale reserve was an unrealized loss of RON (9,369) thousands.

- (ii) The increase in 2017 compared to 2016 is due to new acquisitions of bonds issued also by Ministry of Public Finance compensated partially by maturity of bonds issued by Ministry of Public Finance.

Financial assets past due are presented in Note 39.5 Credit Risk.

19. FINANCIAL ASSETS – HELD TO MATURITY

| in RON thousands | 2017 | | | 2016 | | |
|--|--------------------------------------|----------------------|-------------------|--------------------------------------|----------------------|-------------------|
| | Total assets (gross carrying amount) | Collective allowance | Carrying amount | Total assets (gross carrying amount) | Collective allowance | Carrying amount |
| Debt securities | | | | | | |
| General governments | 14,746,829 | (3,612) | 14,743,217 | 13,907,661 | (3,460) | 13,904,201 |
| Credit institutions | 13,677 | - | 13,677 | - | - | - |
| Total financial assets held to maturity | 14,760,506 | (3,612) | 14,756,894 | 13,907,661 | (3,460) | 13,904,201 |

19. FINANCIAL ASSETS HELD TO MATURITY (continued)

| in RON thousands | 2017 | | | 2016 | | | Bank |
|--|---|-------------------------|--------------------|---|-------------------------|--------------------|------|
| | Total assets (gross carrying amount) | Collective allowance | Carrying amount | Total assets (gross carrying amount) | Collective allowance | Carrying amount | |
| Debt securities | | | | | | | |
| General governments | 13,379,340 | (3,612) | 13,375,729 | 12,389,657 | (3,460) | 12,386,197 | |
| Total financial assets held to maturity | 13,379,340 | (3,612) | 13,375,729 | 12,389,657 | (3,460) | 12,386,197 | |

Larger volumes of held to maturity financial assets acquisitions fully compensated the maturities.

Financial assets past due are presented in Note 39.5 Credit Risk.

On 1 November 2009, the Bank reclassified the ISIN RO0717DBN038 from 'Available-for-Sale' to 'Held-to-Maturity' category. Available-for-sale reserve at the time of reclassification was RON 63 million, which was amortized through profit or loss over the remaining maturity of the instrument using the effective interest rate. The effective interest rate was 11.55%.

| in RON thousands | Carrying amount | Fair value |
|---|--------------------|------------|
| Financial assets previously reclassified as at 31 December 2017 | - | - |
| Financial assets previously reclassified as at 31 December 2016 | 349,348 | 355,414 |
| Financial assets previously reclassified as at 31 December 2015 | 341,039 | 373,341 |
| Financial assets previously reclassified as at 31 December 2014 | 332,731 | 383,472 |
| Financial assets previously reclassified as at 31 December 2013 | 324,423 | 373,454 |
| Financial assets previously reclassified as at 31 December 2012 | 316,114 | 349,988 |
| Financial assets previously reclassified as at 31 December 2011 | 307,806 | 333,686 |

| in RON thousands | 2016 | 2017 |
|--|--------|--------|
| Gain/(Loss) recorded in other comprehensive income | 15,409 | - |
| Gain/(Loss) recorded in profit or loss | 18,479 | 15,473 |

20. SECURITIES

| | | | | | | | | | | Group |
|--|-----------------------------------|----------------|---|---------------|-------------------------------------|------------------|------------------------------|-------------------|-------------------|-------------------|
| Securities | Financial assets held for trading | | Financial assets designated at fair value through profit and loss | | Available-for-sale financial assets | | Held-to-maturity investments | | Total | |
| in RON thousands | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Bonds and other interest-bearing securities | 63,245 | 559,175 | 15,131 | 15,319 | 6,357,528 | 5,376,652 | 14,756,894 | 13,904,201 | 21,192,798 | 19,855,347 |
| Listed | 63,001 | 300,178 | 15,131 | 15,319 | 4,184,769 | 3,964,926 | 14,711,579 | 13,884,895 | 18,974,480 | 18,165,318 |
| Unlisted | 244 | 258,997 | - | - | 2,172,759 | 1,411,726 | 45,315 | 19,306 | 2,218,318 | 1,690,029 |
| Equity related securities | - | 538 | - | - | 242,422 | 197,435 | - | - | 242,422 | 197,973 |
| Listed | - | 538 | - | - | 190,743 | 144,670 | - | - | 190,743 | 145,208 |
| Unlisted/quoted on inactive markets | - | - | - | - | 51,679 | 52,765 | - | - | 51,679 | 52,765 |
| Total | 63,245 | 559,713 | 15,131 | 15,319 | 6,599,950 | 5,574,087 | 14,756,894 | 13,904,201 | 21,435,220 | 20,053,320 |

| | | | | | | | | | | Bank |
|--|-----------------------------------|----------------|---|---------------|-------------------------------------|------------------|------------------------------|-------------------|-------------------|-------------------|
| Securities | Financial assets held for trading | | Financial assets designated at fair value through profit and loss | | Available-for-sale financial assets | | Held-to-maturity investments | | Total | |
| in RON thousands | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Bonds and other interest-bearing securities | 63,245 | 559,175 | 15,131 | 15,319 | 5,904,802 | 4,648,089 | 13,375,729 | 12,386,197 | 19,358,907 | 17,608,780 |
| Listed | 63,002 | 300,178 | 15,131 | 15,319 | 3,759,705 | 3,288,812 | 13,375,729 | 12,386,197 | 17,213,567 | 15,990,506 |
| Unlisted | 243 | 258,997 | - | - | 2,145,097 | 1,359,277 | - | - | 2,145,340 | 1,618,274 |
| Equity related securities | - | 538 | - | - | 242,190 | 197,214 | - | - | 242,190 | 197,752 |
| Listed | - | 538 | - | - | 190,743 | 144,670 | - | - | 190,743 | 145,208 |
| Unlisted/quoted on inactive markets | - | - | - | - | 51,447 | 52,544 | - | - | 51,447 | 52,544 |
| Total | 63,245 | 559,713 | 15,131 | 15,319 | 6,146,992 | 4,845,303 | 13,375,729 | 12,386,197 | 19,601,097 | 17,806,532 |

21. LOANS AND RECEIVABLES TO CREDIT INSTITUTIONS

| | 2017 | | Group |
|--|--------------------------------------|----------------------|------------------|
| in RON thousands | Total assets (gross carrying amount) | Collective allowance | Carrying amount |
| Loans and receivables | 2,221,261 | (6,148) | 2,215,113 |
| Central banks | 213 | - | 213 |
| Credit institutions placements | 284,612 | (6,148) | 278,464 |
| Credit institutions reverse sale and repurchase agreements | 1,936,436 | - | 1,936,436 |
| Total loans and receivables to credit institutions | 2,221,261 | (6,148) | 2,215,113 |

| | 2016 | | Group |
|--|--------------------------------------|----------------------|-----------------|
| in RON thousands | Total assets (gross carrying amount) | Collective allowance | Carrying amount |
| Loans and receivables | 557,466 | (4,636) | 552,830 |
| Central banks | 227 | - | 227 |
| Credit institutions placements | 557,239 | (4,636) | 552,603 |
| Credit institutions reverse sale and repurchase agreements | - | - | - |
| Total loans and receivables to credit institutions | 557,466 | (4,636) | 552,830 |

| | 2017 | | Bank |
|--|--------------------------------------|----------------------|------------------|
| in RON thousands | Total assets (gross carrying amount) | Collective allowance | Carrying amount |
| Loans and receivables | 2,426,183 | (6,148) | 2,420,035 |
| Central banks | 213 | - | 213 |
| Credit institutions placements | 489,534 | (6,148) | 483,386 |
| Credit institutions reverse sale and repurchase agreements | 1,936,436 | - | 1,936,436 |
| Total loans and receivables to credit institutions | 2,426,183 | (6,148) | 2,420,035 |

| | 2016 | | Bank |
|--|--------------------------------------|----------------------|-----------------|
| in RON thousands | Total assets (gross carrying amount) | Collective allowance | Carrying amount |
| Loans and receivables | 656,050 | (4,636) | 651,414 |
| Central banks | 227 | - | 227 |
| Credit institutions placements | 655,823 | (4,636) | 651,187 |
| Credit institutions reverse sale and repurchase agreements | - | - | - |
| Total loans and receivables to credit institutions | 656,050 | (4,636) | 651,414 |

The increase in 2017 compared to 2016 is mainly driven by reverse repo transactions with Erste Group, in amount of RON 1,936 million (2016:0). No impairment was allocated for reverse repurchase transactions. The Group has a right to sell or repledge securities received under reverse sale and repurchase agreements in the absence of default of the borrower.

Financial assets past due are presented in Note 39.5 Credit Risk.

| | Over collateralised | | Under collateralised | |
|---|------------------------------|--------------------------|------------------------------|--------------------------|
| in RON thousands | Carrying value of the assets | Fair value of collateral | Carrying value of the assets | Fair value of collateral |
| Credit institutions | | | | |
| Reverse sale and repurchase agreements with other banks with original maturities of less than three months | 1,936,436 | 2,074,272 | - | - |

21. LOANS AND RECEIVABLES TO CREDIT INSTITUTIONS (continued)
ALLOWANCES FOR LOANS AND RECEIVABLES TO CREDIT INSTITUTIONS

| | 2017 | | | | | Group |
|------------------------------|-----------------|----------------|----------|-------------------------------------|---------------------------------------|-----------------|
| in RON thousands | Opening balance | Allocations | Releases | Interest income from impaired loans | Exchange-rate and other changes (+/-) | Closing Balance |
| Collective allowances | | | | | | |
| Loans and receivables | (4,636) | (1,399) | - | - | (113) | (6,148) |
| Credit institutions | (4,636) | (1,399) | - | - | (113) | (6,148) |
| Total | (4,636) | (1,399) | - | - | (113) | (6,148) |

| | 2016 | | | | | Group |
|------------------------------|-----------------|----------------|------------|-------------------------------------|---------------------------------------|-----------------|
| in RON thousands | Opening balance | Allocations | Releases | Interest income from impaired loans | Exchange-rate and other changes (+/-) | Closing Balance |
| Collective allowances | | | | | | |
| Loans and receivables | (1,340) | (3,707) | 379 | - | 32 | (4,636) |
| Credit institutions | (1,340) | (3,707) | 379 | - | 32 | (4,636) |
| Total | (1,340) | (3,707) | 379 | - | 32 | (4,636) |

| | 2017 | | | | | Bank |
|------------------------------|-----------------|----------------|----------|-------------------------------------|---------------------------------------|-----------------|
| in RON thousands | Opening balance | Allocations | Releases | Interest income from impaired loans | Exchange-rate and other changes (+/-) | Closing Balance |
| Collective allowances | | | | | | |
| Loans and receivables | (4,636) | (1,399) | - | - | (113) | (6,148) |
| Credit institutions | (4,636) | (1,399) | - | - | (113) | (6,148) |
| Total | (4,636) | (1,399) | - | - | (113) | (6,148) |

| | 2016 | | | | | Bank |
|------------------------------|-----------------|----------------|------------|-------------------------------------|---------------------------------------|-----------------|
| in RON thousands | Opening balance | Allocations | Releases | Interest income from impaired loans | Exchange-rate and other changes (+/-) | Closing Balance |
| Collective allowances | | | | | | |
| Loans and receivables | (1,340) | (3,707) | 379 | - | 32 | (4,636) |
| Credit institutions | (1,340) | (3,707) | 379 | - | 32 | (4,636) |
| Total | (1,340) | (3,707) | 379 | - | 32 | (4,636) |

The exposure to banks increased in 2017 compared to 2016 and the collective allowances maintained the same trend.

22. LOANS AND RECEIVABLES TO CUSTOMERS

| | 2017 | | | Group |
|---|---|------------------------|-------------------------|--------------------|
| in RON thousands | Total assets (gross carrying amount) | Specific allowances | Collective allowance | Carrying amount |
| Loans and receivables | 36,218,506 | (2,089,901) | (637,722) | 33,490,883 |
| General governments | 3,517,329 | (7,452) | (21,913) | 3,487,964 |
| Other financial corporations | 271,441 | (31,158) | (3,969) | 236,314 |
| Non-financial corporations | 12,395,068 | (1,037,427) | (374,968) | 10,982,673 |
| Households | 20,034,668 | (1,013,864) | (236,872) | 18,783,932 |
| Total loans and receivables to customers | 36,218,506 | (2,089,901) | (637,722) | 33,490,883 |

| | 2016 | | | Group |
|---|---|------------------------|-------------------------|--------------------|
| in RON thousands | Total assets (gross carrying amount) | Specific allowances | Collective allowance | Carrying amount |
| Loans and receivables | 35,884,581 | (2,993,897) | (599,550) | 32,291,134 |
| General governments | 4,193,329 | (24,687) | (27,458) | 4,141,184 |
| Other financial corporations | 316,897 | (22,553) | (6,478) | 287,866 |
| Non-financial corporations | 12,101,694 | (1,809,316) | (235,051) | 10,057,327 |
| Households | 19,272,661 | (1,137,341) | (330,563) | 17,804,757 |
| Total loans and receivables to customers | 35,884,581 | (2,993,897) | (599,550) | 32,291,134 |

| | 2017 | | | Bank |
|---|---|------------------------|-------------------------|--------------------|
| in RON thousands | Total assets (gross carrying amount) | Specific allowances | Collective allowance | Carrying amount |
| Loans and receivables | 34,584,123 | (1,953,888) | (609,929) | 32,020,306 |
| General governments | 3,517,239 | (7,452) | (21,911) | 3,487,876 |
| Other financial corporations | 530,275 | (31,032) | (3,822) | 495,421 |
| Non-financial corporations | 10,808,753 | (987,255) | (349,804) | 9,471,694 |
| Households | 19,727,856 | (928,149) | (234,392) | 18,565,315 |
| Total loans and receivables to customers | 34,584,123 | (1,953,888) | (609,929) | 32,020,306 |

| | 2016 | | | Bank |
|---|---|------------------------|-------------------------|--------------------|
| in RON thousands | Total assets (gross carrying amount) | Specific allowances | Collective allowance | Carrying amount |
| Loans and receivables | 34,532,671 | (2,793,616) | (576,546) | 31,162,509 |
| General governments | 4,193,151 | (24,687) | (27,454) | 4,141,010 |
| Other financial corporations | 651,633 | (22,057) | (6,353) | 623,223 |
| Non-financial corporations | 10,758,985 | (1,723,092) | (214,948) | 8,820,945 |
| Households | 18,928,902 | (1,023,780) | (327,791) | 17,577,331 |
| Total loans and receivables to customers | 34,532,671 | (2,793,616) | (576,546) | 31,162,509 |

22. LOANS AND RECEIVABLES TO CUSTOMERS (continued)

Loans and receivables include Loans to customers and other receivables as follows:

| | | | | 2017 | Group |
|---|--|------------------------|-------------------------|--------------------|-------|
| in RON thousands | Total assets (gross carrying amount) | Specific allowances | Collective allowance | Carrying amount | |
| Loans and receivables | | | | | |
| Loans and advances to customers | 35,998,660 | (2,062,795) | (626,482) | 33,309,383 | |
| Other financial assets | 219,846 | (27,106) | (11,240) | 181,500 | |
| Total loans and receivables to customers | 36,218,506 | (2,089,901) | (637,722) | 33,490,883 | |

| | | | | 2016 | Group |
|---|--|------------------------|-------------------------|--------------------|-------|
| in RON thousands | Total assets (gross carrying amount) | Specific allowances | Collective allowance | Carrying amount | |
| Loans and receivables | | | | | |
| Loans and advances to customers | 35,744,704 | (2,934,495) | (589,445) | 32,220,764 | |
| Other financial assets | 139,877 | (59,402) | (10,105) | 70,370 | |
| Total loans and receivables to customers | 35,884,581 | (2,993,897) | (599,550) | 32,291,134 | |

| | | | | 2017 | Bank |
|---|--|------------------------|-------------------------|--------------------|------|
| in RON thousands | Total assets (gross carrying amount) | Specific allowances | Collective allowance | Carrying amount | |
| Loans and receivables | | | | | |
| Loans and advances to customers | 34,402,864 | (1,926,782) | (598,689) | 31,877,393 | |
| Other financial assets | 181,259 | (27,106) | (11,240) | 142,913 | |
| Total loans and receivables to customers | 34,584,123 | (1,953,888) | (609,929) | 32,020,306 | |

| | | | | 2016 | Bank |
|---|--|------------------------|-------------------------|--------------------|------|
| in RON thousands | Total assets (gross carrying amount) | Specific allowances | Collective allowance | Carrying amount | |
| Loans and receivables | | | | | |
| Loans and advances to customers | 34,424,994 | (2,734,214) | (566,441) | 31,124,339 | |
| Other financial assets | 107,677 | (59,402) | (10,105) | 38,170 | |
| Total loans and receivables to customers | 34,532,671 | (2,793,616) | (576,546) | 31,162,509 | |

Financial assets past due are presented in Note 39.5 Credit Risk.

22. LOANS AND RECEIVABLES TO CUSTOMERS (continued)
ALLOWANCES FOR LOANS AND RECEIVABLES TO CUSTOMERS

| | 2017 | | | | | | 2016 | | | | | |
|------------------------------|---------------------|------------------|------------------|------------------|-------------------------------------|---------------------------------------|---------------------|--|---|-------|--|--|
| in RON thousands | Opening balance (-) | Allocations* | Uses** | Releases* | Interest income from impaired loans | Exchange-rate and other changes (+/-) | Closing Balance (-) | Recoveries on written-off loans and sale of loans* | Direct write-offs of loans and receivables* | Group | | |
| Specific allowances | | | | | | | | | | | | |
| Loans and receivables | (2,993,897) | (592,363) | 1,037,328 | 631,952 | 47,090 | (220,011) | (2,089,901) | 90,491 | (135,704) | | | |
| General governments | (24,687) | (552) | - | 19,055 | 680 | (1,948) | (7,452) | 164 | - | | | |
| Other financial corporations | (22,553) | (9,284) | 435 | 767 | 494 | (1,017) | (31,158) | - | - | | | |
| Non-financial corporations | (1,809,316) | (318,434) | 873,019 | 351,905 | 25,159 | (159,760) | (1,037,427) | 77,208 | (132,562) | | | |
| Households | (1,137,341) | (264,093) | 163,874 | 260,225 | 20,757 | (57,286) | (1,013,864) | 13,119 | (3,142) | | | |
| Collective allowances | | | | | | | | | | | | |
| Loans and receivables | (599,550) | (147,186) | - | 122,494 | - | (13,480) | (637,722) | | | | | |
| General governments | (27,458) | - | - | 6,212 | - | (667) | (21,913) | | | | | |
| Other financial corporations | (6,478) | (90) | - | 2,752 | - | (153) | (3,969) | | | | | |
| Non-financial corporations | (235,051) | (146,134) | - | 11,339 | - | (5,122) | (374,968) | | | | | |
| Households | (330,563) | (962) | - | 102,191 | - | (7,538) | (236,872) | | | | | |
| Total | (3,593,447) | (739,549) | 1,037,328 | 754,446 | 47,090 | (233,491) | (2,727,623) | | | | | |
| | | | | | | | | | | | | |
| in RON thousands | | | | | | | | | | | | |
| Specific allowances | | | | | | | | | | | | |
| Loans and receivables | (5,369,124) | (759,220) | 2,278,448 | 950,439 | 81,012 | (175,452) | (2,993,897) | 844,309 | (691,674) | | | |
| General governments | (28,573) | (4,814) | 951 | 11,745 | 1,102 | (5,098) | (24,687) | 1,236 | (111) | | | |
| Other financial corporations | (28,192) | (1,100) | 1,913 | 4,953 | 771 | (898) | (22,553) | 96 | (860) | | | |
| Non-financial corporations | (3,753,360) | (413,670) | 1,878,237 | 502,015 | 39,994 | (62,532) | (1,809,316) | 775,749 | (566,694) | | | |
| Households | (1,558,999) | (339,636) | 397,347 | 431,726 | 39,145 | (106,924) | (1,137,341) | 67,228 | (124,009) | | | |
| Collective allowances | | | | | | | | | | | | |
| Loans and receivables | (622,067) | (137,700) | - | 79,177 | - | 81,040 | (599,550) | | | | | |
| General governments | (31,507) | (3,192) | - | 11,119 | - | (3,878) | (27,458) | | | | | |
| Other financial corporations | (3,187) | (5,613) | - | 2,306 | - | 16 | (6,478) | | | | | |
| Non-financial corporations | (392,334) | (46,908) | - | 53,867 | - | 150,324 | (235,051) | | | | | |
| Households | (195,039) | (81,987) | - | 11,885 | - | (65,422) | (330,563) | | | | | |
| Total | (5,991,191) | (896,920) | 2,278,448 | 1,029,616 | 81,012 | (94,412) | (3,593,447) | | | | | |

*) Allocations, releases, recoveries of amounts previously written off and amounts written off represent the income statement effects (see Note 10).

**) Uses represents the decreases of allowances for impairment due to written off and sold loans.

22. LOANS AND RECEIVABLES TO CUSTOMERS (continued)

| | 2017 | | | | | | 2016 | | Bank Direct write-offs of loans and receivables* |
|------------------------------|------------------------|------------------|------------------|----------------|---|---|------------------------|--|---|
| | Opening balance (-) | Allocations* | Uses** | Releases* | Interest income from impaired loans | Exchange-rate and other changes (+/-) | Closing Balance (-) | Recoveries on written-off loans and sale of loans* | |
| in RON thousands | | | | | | | | | |
| Specific allowances | | | | | | | | | |
| Loans and receivables | (2,793,616) | (530,035) | 933,863 | 493,806 | 46,609 | (104,515) | (1,953,888) | 60,469 | (25,460) |
| General governments | (24,687) | (552) | - | 19,055 | 680 | (1,948) | (7,452) | 164 | - |
| Other financial corporations | (22,057) | (9,240) | 115 | 673 | 494 | (1,017) | (31,032) | - | - |
| Non-financial corporations | (1,723,092) | (257,847) | 808,709 | 216,278 | 24,776 | (56,079) | (987,255) | 52,294 | (22,467) |
| Households | (1,023,780) | (262,396) | 125,039 | 257,800 | 20,659 | (45,471) | (928,149) | 8,011 | (2,993) |
| Collective allowances | | | | | | | | | |
| Loans and receivables | (576,546) | (129,636) | - | 110,253 | - | (14,000) | (609,929) | | |
| General governments | (27,454) | - | - | 6,210 | - | (667) | (21,911) | | |
| Other financial corporations | (6,353) | - | - | 2,685 | - | (154) | (3,822) | | |
| Non-financial corporations | (214,948) | (129,636) | 1 | - | - | (5,221) | (349,804) | | |
| Households | (327,791) | - | - | 101,357 | - | (7,956) | (234,392) | | |
| Total | (3,370,162) | (659,671) | 933,863 | 604,059 | 46,609 | (118,515) | (2,563,817) | | |
| | | | | | | | | | |
| in RON thousands | | | | | | | | | |
| Specific allowances | | | | | | | | | |
| Loans and receivables | (4,969,281) | (697,718) | 2,093,484 | 839,737 | 79,730 | (139,568) | (2,793,616) | 717,029 | (580,197) |
| General governments | (28,574) | (4,814) | 951 | 11,745 | 1,102 | (5,097) | (24,687) | 1,236 | (111) |
| Other financial corporations | (28,017) | (600) | 1,877 | 4,776 | 771 | (864) | (22,057) | 96 | (860) |
| Non-financial corporations | (3,623,874) | (354,590) | 1,805,294 | 438,138 | 38,796 | (26,856) | (1,723,092) | 649,397 | (455,217) |
| Households | (1,288,816) | (337,714) | 285,362 | 385,078 | 39,061 | (106,751) | (1,023,780) | 66,300 | (124,009) |
| Collective allowances | | | | | | | | | |
| Loans and receivables | (600,542) | (122,171) | - | 65,949 | - | 80,218 | (576,546) | | |
| General governments | (31,495) | (3,192) | - | 11,113 | - | (3,880) | (27,454) | | |
| Other financial corporations | (3,071) | (5,552) | - | 2,241 | - | 29 | (6,353) | | |
| Non-financial corporations | (372,629) | (32,178) | - | 41,402 | - | 148,457 | (214,948) | | |
| Households | (193,347) | (81,249) | - | 11,193 | - | (64,388) | (327,791) | | |
| Total | (5,569,823) | (819,889) | 2,093,484 | 905,686 | 79,730 | (59,350) | (3,370,162) | | |

*) Allocations, releases, recoveries of amounts previously written off and amounts written off represent the income statement effects (see Note 10).

**) Uses represents the decreases of allowances for impairment due to written off and sold loans.

22. LOANS AND RECEIVABLES TO CUSTOMERS (continued)

In 2017 and 2016 the Group sold a part of non-performing loan portfolio, as follows:

| in RON thousands | | Group | | | |
|--|-----------------------|-------------------|-----------------------|-------------------|--|
| | | 2017 | | 2016 | |
| Transfer of loans | Gross carrying amount | Related allowance | Gross carrying amount | Related allowance | |
| Sale on balance loans | 112,000 | 97,164 | 2,631,021 | 2,053,347 | |
| Write off on balance loans | 881,398 | 881,398 | 329,758 | 321,830 | |
| Sales from previously written off loans | 26,363 | 26,363 | 2,949,870 | 2,949,870 | |
| Total exposure reduction from sale and write offs | 1,019,761 | 1,004,926 | 5,910,650 | 5,325,047 | |

| in RON thousands | | Bank | | | |
|--|-----------------------|-------------------|-----------------------|-------------------|--|
| | | 2017 | | 2016 | |
| Transfer of loans | Gross carrying amount | Related allowance | Gross carrying amount | Related allowance | |
| Sale on balance loans | 110,054 | 95,556 | 2,376,901 | 1,877,985 | |
| Write off on balance loans | 845,547 | 845,547 | 310,456 | 303,498 | |
| Sales from previously written off loans | 25,275 | 25,275 | 2,423,774 | 2,423,774 | |
| Total exposure reduction from sale and write offs | 980,876 | 966,379 | 5,111,131 | 4,605,257 | |

During 2017 BCR Group has realized three main sales of non-performing loans portfolios:

1. Retail loans in amount of RON equivalent 17,179 thousands (Jan-17)
2. Retail loans in amount of RON equivalent 37,609 thousands (Oct-17)
3. Corporate loans in amount of RON equivalent 36,221 thousands (Dec-17)

The rest up to RON 138,363 thousands total sales represent individual corporate loans in amount of RON equivalent 46,954 thousands.

During 2016 BCR Group has realized two main sales of non-performing loans portfolios:

1. Corporate and Retail loans in amount of RON equivalent 4,393,761 thousands
2. Retail loans in amount of RON equivalent 1,059,531 thousands

The rest up to RON 5,580,892 thousands represent other sales.

Total reduction in net exposure due to sales and write offs was in amount of RON 14,836 thousands for the Group (2016: RON 585,603 thousands) and RON 14,498 thousands for the Bank (2016: RON 505,874 thousands). The net proceeds from disposal were of RON 41,588 thousands for the Group (2016: 580,239 thousands) and RON 41,362 thousands for the Bank (2016: 498,978).

Related to the significant sales implemented throughout this period, de-recognition of loans was implemented following:

- the confirmation that contractual rights of the relevant loans have been transferred, through Closing Minutes, by which the parties confirm that the ownership over the assigned rights has passed to the assignees, and
- analysis that substantially all risks and rewards have been transferred; in this respect a variability analysis has been performed, demonstrating that the Bank's/Group's exposure to variability is not significant in relation to the total variability in the present value of the future net cash flows associated with the financial assets subject to sale.

23. INVESTMENTS IN ASSOCIATES

The Bank has a 33.33% interest in Fondul de Garantare a Creditului Rural, an unlisted financial institution whose main role is to facilitate the companies from the agriculture industry to obtain loans from the banks. The Bank's interest in Fondul de Garantare a Creditului Rural is accounted for using the equity method in the consolidated financial statements.

| in RON thousands | 2017 | 2016 |
|------------------------|---------------|---------------|
| Financial institutions | 17,375 | 16,568 |
| Total | 17,375 | 16,568 |

The table below shows the aggregated financial information of the company:

| in RON thousands | 2017 | 2016 |
|--|---------------|---------------|
| Total assets | 727,918 | 737,436 |
| Total liabilities | 675,788 | 687,728 |
| Total equity | 52,130 | 49,708 |
| Proportional of the Group's ownership | 33.33% | 33.33% |
| Carrying amount of the investment | 17,375 | 16,568 |

| in RON thousands | 2017 | 2016 |
|---|--------------|--------------|
| Income | 15,255 | 17,843 |
| Expenses | (12,639) | (11,308) |
| Profit before tax | 2,616 | 6,535 |
| Income tax expenses | (194) | (1,149) |
| Profit/loss | 2,422 | 5,386 |
| Proportional of the Group's ownership | 33.33% | 33.33% |
| Group's share of profit for the year | 807 | 1,795 |

The contribution of the Fondul de Garantare a Creditului Rural to BCR Group's total assets is 0.01%.

24. PROPERTY, EQUIPMENT AND INVESTMENT PROPERTIES

| Group | | | | | | |
|---|--------------------|---|----------------------|------------------------|------------------------------|-----------------------|
| Property and equipment - Acquisition and production costs | | | | | | |
| in RON thousands | Land and buildings | Office and plant equipment / other fixed assets | IT assets (hardware) | Movable other property | Total property and equipment | Investment properties |
| Balance as reported at 01.01.2016 | 1.155.257 | 345.642 | 468.082 | 264.021 | 2.233.002 | 613 |
| Correction made * | (6.503) | 289.199 | (284.279) | - | (1.583) | - |
| Balance corrected as of 01.01.2016 | 1.148.754 | 634.841 | 183.803 | 264.021 | 2.231.419 | 613 |
| Additions in current year (+) | 19.795 | 48.223 | 36.928 | 103.657 | 208.603 | - |
| Disposals and write off (-) | (20.907) | (13.063) | (36.186) | (15.756) | (85.912) | - |
| Reclassification (+/-) | (787) | (3.176) | 4.420 | - | 457 | - |
| Assets held for sale (-) | 280.713 | - | - | - | 280.713 | - |
| Currency translation (+/-) | 15 | 188 | 134 | - | 337 | - |
| Balance as of 31.12.2016 | 1.427.583 | 667.013 | 189.099 | 351.922 | 2.635.617 | 613 |
| Balance as of 01.01.2017 | 1.427.583 | 667.013 | 189.099 | 351.922 | 2.635.617 | 613 |
| Additions in current year (+) | 18.649 | 69.852 | 1.576 | 126.754 | 216.831 | 4.961 |
| Disposals and write off (-) | (10.254) | (45.108) | (5.029) | (83.418) | (143.809) | (613) |
| Reclassification (+/-) | (173.108) | 9.680 | 73 | (10.100) | (173.455) | 173.107 |
| Assets held for sale (-) | (4.658) | (49.948) | (1.281) | - | (55.887) | - |
| Currency translation (+/-) | 25 | 321 | 228 | - | 574 | - |
| Balance as of 31.12.2017 | 1.258.237 | 651.810 | 184.666 | 385.158 | 2.479.871 | 178.068 |

| Group | | | | | | |
|---|--------------------|---|----------------------|------------------------|------------------------------|-----------------------|
| Property and equipment - Accumulated depreciation | | | | | | |
| in RON thousands | Land and buildings | Office and plant equipment / other fixed assets | IT assets (hardware) | Movable other property | Total property and equipment | Investment properties |
| Balance as reported at 01.01.2016 | (401.153) | (270.866) | (413.873) | (48.353) | (1.134.245) | (127) |
| Correction made * | 6.503 | (241.994) | 237.075 | - | 1.584 | - |
| Balance corrected as of 01.01.2016 | (394.650) | (512.860) | (176.798) | (48.353) | (1.132.661) | (127) |
| Amortisation and depreciation (-) | (36.767) | (18.181) | (13.508) | (29.686) | (98.142) | (64) |
| Disposals (+) | 16.477 | 12.758 | 35.043 | 3.851 | 68.129 | - |
| Impairment (-) | - | (14) | - | - | (14) | - |
| Currency translation (+/-) | (3) | (184) | (139) | - | (326) | - |
| Balance as of 31.12.2016 | (414.943) | (518.481) | (155.402) | (74.188) | (1.163.014) | (191) |
| Balance as of 01.01.2017 | (414.943) | (518.481) | (155.402) | (74.188) | (1.163.014) | (191) |
| Amortisation and depreciation (-) | (40.916) | (24.467) | (17.866) | (38.654) | (121.903) | - |
| Disposals (+) | 8.884 | 35.575 | 13.530 | 6.878 | 64.867 | 192 |
| Impairment (-) | (16.895) | (57) | (1) | (3.185) | (20.138) | - |
| Reversal of impairment (+) | 122 | - | - | 75 | 197 | - |
| Reclassification (+/-) | 55.495 | (283) | 89 | 543 | 55.844 | (56.578) |
| Assets held for sale (+) | 1.038 | 18.565 | 803 | - | 20.406 | - |
| Currency translation (+/-) | (5) | (225) | (219) | - | (449) | (1) |
| Balance as of 31.12.2017 | (407.220) | (489.373) | (159.066) | (108.531) | (1.164.190) | (56.578) |

* Correction of an error regarding classification - alignment with internal policy.

| Group | | | | | | |
|---|--------------------|---|----------------------|------------------------|------------------------------|-----------------------|
| Property and equipment - Accumulated depreciation | | | | | | |
| in RON thousands | Land and buildings | Office and plant equipment / other fixed assets | IT assets (hardware) | Movable other property | Total property and equipment | Investment properties |
| Balance as of 31.12.2016 | 1,012,640 | 148,532 | 33,697 | 277,734 | 1,472,602 | 422 |
| Balance as of 31.12.2017 | 851,017 | 162,437 | 25,600 | 276,627 | 1,315,681 | 121,490 |

24. PROPERTY, EQUIPMENT AND INVESTMENT PROPERTIES (continued)

| Bank | | | | | |
|---|--------------------|---|----------------------|------------------------------|-----------------------|
| Property and equipment - Acquisition and production costs | | | | | |
| in RON thousands | Land and buildings | Office and plant equipment / other fixed assets | IT assets (hardware) | Total property and equipment | Investment properties |
| Balance as reported at 01.01.2016 | 346.468 | 292.730 | 458.031 | 1.097.229 | - |
| Correction made * | (6.503) | 289.199 | (284.279) | (1.583) | - |
| Balance corrected as of 01.01.2016 | 339.965 | 581.929 | 173.752 | 1.095.646 | - |
| Additions in current year (+) | 17.022 | 32.806 | 35.919 | 85.747 | - |
| Disposals and write off (-) | (16.160) | (8.625) | (35.152) | (59.937) | - |
| Merger effects (+) | 1.037.015 | 21.686 | - | 1.058.701 | - |
| Reclassification (+/-) | (788) | (3.177) | 4.420 | 455 | - |
| Assets held for sale (-) | 36.280 | - | - | 36.280 | - |
| Balance as of 31.12.2016 | 1.413.334 | 624.619 | 178.939 | 2.216.892 | - |
| Balance as of 01.01.2017 | 1.413.334 | 624.619 | 178.939 | 2.216.892 | - |
| Additions in current year (+) | 17.878 | 50.271 | 1.092 | 69.241 | 4.961 |
| Disposals and write off (-) | (9.463) | (43.847) | (4.868) | (58.178) | - |
| Reclassification (+/-) | (173.108) | - | 69 | (173.039) | 173.107 |
| Balance as of 31.12.2017 | 1.248.641 | 631.043 | 175.232 | 2.054.916 | 178.068 |

| Bank | | | | | |
|---|--------------------|---|----------------------|------------------------------|-----------------------|
| Property and equipment - Accumulated depreciation | | | | | |
| in RON thousands | Land and buildings | Office and plant equipment / other fixed assets | IT assets (hardware) | Total property and equipment | Investment properties |
| Balance as reported at 01.01.2016 | (216.643) | (237.622) | (407.043) | (861.308) | - |
| Correction made * | 6.503 | (241.994) | 237.075 | 1.584 | - |
| Balance corrected as of 01.01.2016 | (210.140) | (479.616) | (169.968) | (859.724) | - |
| Amortisation and depreciation (-) | (14.439) | (11.480) | (12.390) | (38.309) | - |
| Disposals (+) | 16.132 | 8.428 | 34.278 | 58.838 | - |
| Merger effects (+) | (203.718) | (15.416) | - | (219.134) | - |
| Impairment (-) | - | (14) | - | (14) | - |
| Balance as of 31.12.2016 | (412.165) | (498.098) | (148.080) | (1.058.343) | - |
| Balance as of 01.01.2017 | (412.165) | (498.098) | (148.080) | (1.058.343) | - |
| Amortisation and depreciation (-) | (39.817) | (18.684) | (16.614) | (75.115) | - |
| Disposals (+) | 8.093 | 34.591 | 13.372 | 56.056 | - |
| Impairment (-) | (16.895) | (57) | - | (16.952) | - |
| Reclassification (+/-) | 55.495 | - | (69) | 55.426 | (56.578) |
| Currency translation (+/-) | - | 1 | (2) | (1) | - |
| Balance as of 31.12.2017 | (405.289) | (482.247) | (151.393) | (1.038.929) | (56.578) |

* Correction of an error regarding classification - alignment with internal policy.

| Bank | | | | | |
|---|--------------------|---|----------------------|------------------------------|-----------------------|
| Property and equipment - Accumulated depreciation | | | | | |
| in RON thousands | Land and buildings | Office and plant equipment / other fixed assets | IT assets (hardware) | Total property and equipment | Investment properties |
| Balance as of 31.12.2016 | 1,001,169 | 126,521 | 30,859 | 1,158,549 | - |
| Balance as of 31.12.2017 | 843,352 | 148,796 | 23,839 | 1,015,987 | 121,490 |

There are no fixed assets pledged as collateral as at 31 December 2017 and 31 December 2016.

The total cost of the Group's tangible fixed assets in use and fully amortized at the end of 2017 was RON 575,573 thousands (2016: RON 613,878 thousands). The total cost of the Bank's tangible fixed assets in use and fully amortized at the end of 2017 was RON 574,484 thousands (2016: RON 590,907 thousands).

The fair value of land and buildings is RON 959.066 thousands for the Group and RON 951.897 thousands for the Bank. The fair value of land and buildings has been assessed as at 31 December 2017 by an independent valuator.

24. PROPERTY, EQUIPMENT AND INVESTMENT PROPERTIES (continued)

The investment properties are presented at cost and as at 31 December 2017 the fair value is RON 146,324 thousands. Fair values are determined based on an annual evaluation performed by an accredited external independent valuator.

Assets under construction are in amount of RON 82,079 thousands (2016: RON 70,898 thousands) for the Bank.

Details related to assets reclassified in assets held for sale are in Note 27.

As a result of the merger between the bank, BCR Real Estate Management and Bucharest Financial Plaza, as of 31 December 2016, the following fixed assets (cost and related accumulated depreciation) were transferred into the Bank's portfolio (RON thousands):

| Absorbed entity | Cost | Accumulated depreciation | Total net book value |
|----------------------------|------------------|--------------------------|----------------------|
| REM | 792,459 | (200,193) | 592,266 |
| BFP | 266,242 | (18,941) | 247,301 |
| Total merger effect | 1,058,701 | (219,134) | 839,567 |

25. INTANGIBLE ASSETS

| | | | | | Group |
|--|------------------------|-------------------|--|----------------------------------|----------------|
| Intangible assets - Acquisition and production costs | | | | | |
| in RON thousands | Customer relationships | Software acquired | Self-constructed software within the Group | Others (licenses, patents, etc.) | Total |
| Balance as reported at 01.01.2016 | 106,944 | 762,873 | 11,616 | 492 | 881,925 |
| Correction made * | - | (38,145) | 39,944 | - | 1,799 |
| Balance corrected as of 01.01.2016 | 106,944 | 724,728 | 51,560 | 492 | 883,724 |
| Additions in current year (+) | - | 90,638 | 39,144 | - | 129,782 |
| Disposals and write off (-) | (106,944) | (2,996) | (1,143) | - | (111,083) |
| Reclassification (+/-) | - | (15,564) | 15,110 | - | (454) |
| Currency translation (+/-) | - | 110 | - | - | 110 |
| Balance as of 31.12.2016 | - | 796,916 | 104,671 | 492 | 902,079 |
| Balance as of 01.01.2017 | - | 796,916 | 104,671 | 492 | 902,079 |
| Additions in current year (+) | - | 121,548 | 18,179 | - | 139,727 |
| Disposals and write off (-) | - | (91,539) | (1,633) | - | (93,172) |
| Assets held for sale (-) | - | (3,677) | - | - | (3,677) |
| Currency translation (+/-) | - | 200 | - | - | 200 |
| Balance as of 31.12.2017 | - | 820,550 | 124,748 | 361 | 945,659 |

25. INTANGIBLE ASSETS (continued)

| | | | | | Group |
|--|------------------------|-------------------|--|----------------------------------|------------------|
| Intangible assets - Accumulated depreciation | | | | | |
| in RON thousands | Customer relationships | Software acquired | Self-constructed software within the Group | Others (licenses, patents, etc.) | Total |
| Balance as reported at 01.01.2016 | (106,944) | (531,578) | (8,725) | (411) | (647,658) |
| Correction made * | - | 38,145 | (39,944) | - | (1,799) |
| Balance corrected as of 01.01.2016 | (106,944) | (493,433) | (48,669) | (411) | (649,457) |
| Amortisation and depreciation (-) | - | (58,254) | (12,560) | (8) | (70,822) |
| Disposals and write off (-) | 106,944 | 2,105 | - | - | 109,049 |
| Reclassification (+/-) | - | (1,374) | - | (73) | (1,447) |
| Currency translation (+/-) | - | (96) | - | - | (96) |
| Balance as of 31.12.2016 | - | (551,052) | (61,229) | (492) | (612,773) |
| Balance as of 01.01.2017 | - | (551,052) | (61,229) | (492) | (612,773) |
| Amortisation and depreciation (-) | - | (39,123) | (5,957) | - | (45,080) |
| Disposals and write off (-) | - | 85,037 | 55 | - | 85,092 |
| Impairment (-) | - | (53,423) | - | - | (53,423) |
| Reclassification (+/-) | - | 3,295 | (3,217) | 130 | 208 |
| Assets held for sale (-) | - | 1,335 | - | - | 1,335 |
| Currency translation (+/-) | - | (146) | - | 1 | (145) |
| Balance as of 31.12.2017 | - | (554,077) | (70,348) | (361) | (624,786) |

* Correction of an error regarding classification - alignment with internal policy.

| | | | | | Group |
|---------------------------------|------------------------|-------------------|--|----------------------------------|----------------|
| Intangible assets | | | | | |
| in RON thousands | Customer relationships | Software acquired | Self-constructed software within the Group | Others (licenses, patents, etc.) | Total |
| Balance as of 31.12.2016 | - | 245,864 | 43,442 | - | 289,306 |
| Balance as of 31.12.2017 | - | 266,473 | 54,400 | - | 320,873 |

| | | | | | Bank |
|--|-------------------|--|--|----------------|------|
| Intangible assets - Acquisition and production costs | | | | | |
| in RON thousands | Software acquired | Self-constructed software within the Group | | Total | |
| Balance as reported at 01.01.2016 | 735,699 | 11,616 | | 747,315 | |
| Correction made * | (38,145) | 39,944 | | 1,799 | |
| Balance corrected as of 01.01.2016 | 697,554 | 51,560 | | 749,114 | |
| Additions in current year (+) | 88,168 | 39,144 | | 127,312 | |
| Disposals and write off (-) | (2,498) | (1,143) | | (3,641) | |
| Merger effects (+) | 3,083 | - | | 3,083 | |
| Reclassification (+/-) | (15,564) | 15,109 | | (455) | |
| Currency translation (+/-) | - | (1) | | (1) | |
| Balance as of 31.12.2016 | 770,743 | 104,669 | | 875,412 | |
| Balance as of 01.01.2017 | 770,743 | 104,669 | | 875,412 | |
| Additions in current year (+) | 118,187 | 18,179 | | 136,366 | |
| Disposals and write off (-) | (91,412) | (1,633) | | (93,045) | |
| Reclassification (+/-) | (3,603) | 3,532 | | (71) | |
| Currency translation (+/-) | - | 1 | | 1 | |
| Balance as of 31.12.2017 | 793,915 | 124,748 | | 918,663 | |

25. INTANGIBLE ASSETS (continued)

| | | | | Bank |
|---|-------------------|--|------------------|--|
| | | | | Intangible assets - Accumulated depreciation |
| in RON thousands | Software acquired | Self-constructed software within the Group | Total | |
| Balance as reported at 01.01.2016 | (514,351) | (8,724) | (523,075) | |
| Correction made * | 38,145 | (39,944) | (1,799) | |
| Balance corrected as of 01.01.2016 | (476,206) | (48,668) | (524,874) | |
| Amortisation and depreciation (-) | (54,912) | (12,559) | (67,471) | |
| Disposals and write off (-) | 2,089 | - | 2,089 | |
| Merger effects (+) | (3,083) | - | (3,083) | |
| Reversal of impairment (+) | (1,374) | - | (1,374) | |
| Reclassification (+/-) | 2 | (2) | - | |
| Balance as of 31.12.2016 | (533,484) | (61,229) | (594,713) | |
| Balance as of 01.01.2017 | (533,484) | (61,229) | (594,713) | |
| Amortisation and depreciation (-) | (36,197) | (5,957) | (42,154) | |
| Disposals and write off (-) | 85,732 | 55 | 85,787 | |
| Impairment (-) | (53,423) | - | (53,423) | |
| Reclassification (+/-) | 3,288 | (3,217) | 71 | |
| Balance as of 31.12.2017 | (534,084) | (70,348) | (604,432) | |

* Correction of an error regarding classification - alignment with internal policy.

| | | | | Bank |
|---------------------------------|-------------------|--|----------------|-------------------|
| | | | | Intangible assets |
| in RON thousands | Software acquired | Self-constructed software within the Group | Total | |
| Balance as of 31.12.2016 | 237,259 | 43,440 | 280,699 | |
| Balance as of 31.12.2017 | 259,831 | 54,400 | 314,231 | |

Customer relationships represented acquisition of pension contracts by the subsidiary BCR Pensii, Societate de Administrare a Fondurilor de Pensii Private SA, from another pension fund. In 2014, given the volatility in the current economic environment, the Group has performed an impairment test on the customer relationship (for both Pillar 2 and Pillar 3). During 2016 Customer relationship has been written off.

The total cost of the Group's intangible fixed assets in use and fully amortized at the end of 2017 was RON 378,400 thousands (2016: RON 403,669 thousands). The total cost of the Bank's intangible fixed assets in use and fully amortized at the end of 2017 was RON 373,137 thousands (2016: RON 391,108 thousands).

Assets under construction are in amount of RON 124,263 thousands (2016: RON 117,904 thousands) for the Bank and represent various software developments.

The merger effect is represented by intangible assets transferred from BCR Real Estate Management, having a gross book value in amount of RON 3,083 thousands, fully depreciated as of 31 December 2016.

26. TAX ASSETS AND LIABILITIES

| in RON thousands | | | | | Group | | |
|---|-----------------|-----------------|----------------------|----------------------|-------------------|------------------------|------------------------------------|
| | Tax assets 2017 | Tax assets 2016 | Tax liabilities 2017 | Tax liabilities 2016 | Net variance 2017 | | |
| | | | | | Total | Through profit or loss | Through other comprehensive income |
| Temporary differences relate to the following items: | | | | | | | |
| Loans and advances to credit institutions and customers | 3,723 | 3,154 | - | - | 569 | 569 | - |
| Financial assets - available for sale | (46,091) | (50,242) | (25) | (3,966) | 4,151 | (3,967) | 8,118 |
| Property and equipment | 22,494 | 13,214 | - | - | 9,280 | 9,280 | - |
| Investments in subsidiaries | - | 157,020 | - | - | (157,020) | (157,020) | - |
| Long-term employee provisions | (13,085) | 8,123 | - | - | (21,208) | (20,371) | (837) |
| Sundry provisions | 173,995 | 161,114 | - | - | 12,881 | 12,881 | - |
| Carry forward of tax losses | 3,072 | 6,745 | - | - | (3,673) | (3,673) | - |
| Other | 24,670 | 23,380 | - | - | 1,290 | 1,290 | - |
| Total deferred taxes | 168,778 | 322,508 | (25) | (3,966) | (153,730) | (161,011) | 7,281 |
| Tax assets (i) | 86,736 | 162,480 | (230) | (1,262) | (75,997) | (75,997) | - |
| Total taxes | 255,514 | 484,988 | (255) | (5,228) | (229,727) | (237,008) | 7,281 |

| in RON thousands | | | | | Bank | | |
|--|-----------------|-----------------|------------------|------------------------|------------------------------------|--|--|
| | Tax assets 2017 | Tax assets 2016 | | | Net variance 2017 | | |
| | | | Total | Through profit or loss | Through other comprehensive income | | |
| Temporary differences relate to the following items: | | | | | | | |
| Financial assets - available for sale | (46,152) | (50,383) | 4,231 | - | 4,231 | | |
| Property and equipment | 23,656 | 27,939 | (4,283) | (4,283) | - | | |
| Investments in subsidiaries | - | 157,020 | (157,020) | (157,020) | - | | |
| Long-term employee provisions | 6,801 | 8,123 | (1,322) | (498) | (824) | | |
| Sundry provisions | 173,056 | 161,110 | 11,946 | 11,946 | - | | |
| Carry forward of tax losses | - | 6,745 | (6,745) | (6,745) | - | | |
| Total deferred taxes | 157,361 | 310,554 | (153,193) | (156,600) | 3,407 | | |
| Tax assets (i) | 83,435 | 159,029 | (80,112) | (80,112) | - | | |
| Total taxes | 240,796 | 469,583 | (233,305) | (236,712) | 3,407 | | |

- i) In 2017, the Bank applied for deductibility of expenses with impairment of subsidiaries. Despite all the arguments put forward by the Bank, the tax authorities considered that the expenses incurred by the Company with the depreciation of the subsidiaries are not deductible. The previously recognized deferred tax asset for these temporary differences was reversed by BCR during 2017, as it is now clear that in the event of disposing of the subsidiary the Bank will not benefit from deductibility of the related impairment accumulated.

The Bank believes that the expenses incurred with the impairment of the participations are deductible expenses in accordance with the provisions of the Fiscal Code in force at the date of registration of the adjustments (2012-2015), and the amounts are included in the tax appeal filed by the Bank. The tax provisions in force during the period reviewed state that the expenses related to the impairment of financial assets registered according to the accounting regulations are deductible. The tax legislation does not contain any restriction in this regard, which also results from the Grounding Explanatory Note for the modification of the Tax Code and the Tax Guide for Conversion to IFRS which were referred by the tax auditors.

27. ASSETS HELD FOR SALE AND LIABILITIES ASSOCIATED WITH ASSETS HELD FOR SALE

The Management Board approved in April 2017 the launching of the sale process of BCR's investment in shares in **CIT One** SRL and in September 2017 approved the strategy for the binding offer phase of the sale project. The major classes of assets and liabilities related to CIT One disposal group are presented below:

| in RON thousands | 2017 | Group 2016 |
|---|-----------------|---------------|
| Major classes of assets part of the disposal group held for sale are as follows: | | |
| Loans and receivables | 1,719 | - |
| Property and equipment | 35,482 | - |
| Land and Buildings (used by the Group) | 3,621 | - |
| Office and plant equipment / other fixed assets | 31,383 | - |
| IT assets (Hardware) | 478 | - |
| Intangible assets | 2,342 | - |
| Deferred tax assets | 1,049 | - |
| Other assets | 2,012 | - |
| TOTAL ASSETS | 42,604 | - |
| Major classes of liabilities directly associated with disposal group held for sale are as follows: | | |
| Financial liabilities held for trading | (5,981) | - |
| Provisions | (2,149) | - |
| Other Liabilities | (4,787) | - |
| TOTAL LIABILITIES | (12,917) | - |
| NET ASSETS | 29,687 | - |

The remaining balance of assets held for sale includes properties held for sale.

28. INVESTMENTS IN SUBSIDIARIES AND OTHER ASSETS

| in RON thousands | Group | | Bank | |
|---|----------------|----------------|----------------|----------------|
| | 2017 | 2016 | 2017 | 2016 |
| Accrued income | 45,928 | 54,674 | 8,590 | 8,130 |
| Inventories (i) | 144,537 | 197,861 | 118,735 | 135,009 |
| Sundry assets | 114,792 | 113,195 | 30,570 | 41,486 |
| Total Other Assets | 305,257 | 365,730 | 157,895 | 184,625 |
| Subsidiaries (ii) | - | - | 533,510 | 622,150 |
| Total Investments in subsidiaries and other assets | 305,257 | 365,730 | 691,405 | 806,775 |

- (i) Under this position the major item is represented by "Repossessed Assets", which amounts to net of RON 118,735 thousands (2016: RON 138,236 thousands) for the Bank and RON 25,801 thousands (2016: RON 62,584 thousands) for subsidiaries. Write down of repossessed assets in amount of RON 141,454 thousands (2016: RON 174,705 thousands) for the Group and RON 115,196 thousands (2016: RON 115,781 thousands) for the Bank was booked as a result of comparing carrying amount with net realizable value.

During 2017 a part of the repossessed assets was sold. The selling price in amount of RON 18,983 thousands (2016: RON 61,383 thousands) was booked as other operating income and the NBV in amount of RON 19,283 thousands (2016: RON 61,383 thousands) was recorded as other operating expenses.

- (ii) The Bank's investments in subsidiaries and other companies are in amount of RON 533,510 thousands (2016: RON 622,150 thousands). There is no active market for these investments and the Bank intends to hold them for the long term.

28. INVESTMENTS IN SUBSIDIARIES AND OTHER ASSETS (continued)

The movement in Subsidiaries' balance is presented below:

| in RON thousands | Bank |
|---|----------------|
| Balance as of 01.01.2017 | 622,150 |
| Contribution to increase in share capital | 22,079 |
| Reclassification to Assets held for sale (net book value) | (1,632) |
| Impairment of subsidiaries | (109,087) |
| Balance as of 31.12.2017 | 533,510 |

At 31 December 2017, the allocation of impairment for investments in subsidiaries was in amount of RON (97,410) thousands, consisting of RON (109,087) thousands increase in impairment for BCR Leasing, BCR Chisinau and BCR Banca pentru Locuinte, and RON 11,667 thousands impairment reversal for CIT One. The investment in CIT One was reclassified in the category 'Non-current assets and disposal groups classified as held for sale'.

| in RON thousands | 2017 | 2016 |
|------------------------------|--------------------|--------------------|
| Suport Colect SRL | (983,047) | (983,047) |
| BCR Leasing IFN SA | (199,218) | (159,661) |
| BCR Chisinau SA | (160,182) | (137,097) |
| BCR Banca pentru Locuinte SA | (46,445) | - |
| CIT One SRL | - | (11,677) |
| Total | (1,388,892) | (1,291,482) |

The recoverable amount of the subsidiaries has been determined as the higher of fair value (FV) less costs of sale and value in use (ViU), generally using long term financial projections. In accordance with IAS 36 par 50, the ViU was calculated on a pre-tax basis (before corporate taxes).

Based on business specifics, specific valuation methods were applied for each company, as follows:

- Dividend Discount Model - the value of the company is considered the present value of its future dividend payments, plus the excess capital distributions/ contributions; the model uses cost of equity (CoE) as discount factor.
- Discounted Cash Flows model – the value of the company is considered the present value of its future free cash flows, less the net debt at the date of valuation; the model uses weighted average cost of capital (WACC) as discount factor.
- Net Assets Value model – the value is the accounting net assets, with key positions measured at cost being adjusted to fair value.

The calculation of FV and ViU for both foreign and local subsidiaries is most sensitive to discount rates and financial projections (budgets) used.

Discount rates

The discount rates used were determined based on specific parameters (e.g. risk free rate, market risk premium, country risk premium, BETA rates, inflation spread), estimated for commercial banking industry and other financial services based on industry research.

The projected inflation rates are based on published industry research (median values of three sources of research).

| Cost of equity (CoE)/ Weighted average cost of capital (WACC) | Fair value | Value in use |
|---|------------|--------------|
| Local subsidiaries | 9-13.2% | 10.7-15.7% |
| Foreign subsidiaries | 18.3% | 21.8% |

Financial Projections

The financial projections are based on financial budgets approved by senior management, covering a five-year period. Significant events arising after the budgets were approved were taken into account. The approved projections were also adjusted for the financial impact of capital distributions, for the companies where Dividend Discount Model was used.

For companies operating in a tight regulatory environment regarding capital adequacy (i.e. banks and leasing companies), the distributions resulting from the financial projections were adjusted in order to take into account the maximum capital distributions allowed in order to keep the targeted solvency position.



NOTES TO THE FINANCIAL STATEMENTS

Consolidated and Separate for the year ended 31 December 2017

28. INVESTMENTS IN SUBSIDIARIES AND OTHER ASSETS (continued)

Sensitivity to changes in assumptions

| in RON thousands | |
|--|----------|
| Impact in the Statement of Comprehensive Income: income/ (expense) | |
| Cost of equity/ Weighted average cost of capital increases by 10% | (36,061) |
| Cost of equity/ Weighted average cost of capital decreases by 10% | 46,302 |
| Net cash-flows increase by 10% | 45,696 |
| Net cash flows decrease by 10% | (45,696) |

29. FINANCIAL LIABILITIES MEASURED AT AMORTISED COST
Deposits from banks

| Credit institutions in RON thousands | Group | | Bank | |
|---|------------------|------------------|------------------|------------------|
| | 2017 | 2016 | 2017 | 2016 |
| Current accounts / overnight deposits | 333,238 | 179,589 | 372,547 | 175,794 |
| Term deposits from other banks | 2,914,212 | 4,944,837 | 2,753,919 | 4,904,126 |
| Repurchase agreements* | 142,901 | 8,201 | 1,053,535 | 546,163 |
| Total deposits from banks | 3,390,351 | 5,132,627 | 4,180,001 | 5,626,083 |

*include associated liabilities for collateral repledged in amount of RON 726 thousands.

Borrowings and financing lines

| Credit institutions in RON thousands | Group | | Bank | |
|---|------------------|------------------|----------------|------------------|
| | 2017 | 2016 | 2017 | 2016 |
| Borrowings and financing lines | 2,064,340 | 2,177,267 | 838,133 | 1,154,233 |
| Total Borrowings and financing lines | 2,064,340 | 2,177,267 | 838,133 | 1,154,233 |

Note: For 2016, an amount of RON 318 million was reclassified from borrowings & financing lines in term deposits from other banks.

Maturity of other financing lines is between June 2018 and September 2030, the interest rates are fixed or variable in a range between 0.087-3.59 %.

| in RON thousands | Group | | |
|--|----------------------|-------------------|------------------|
| | Other borrowed funds | Subordinated debt | Total |
| Liabilities from financing activities | | | |
| Net debt at 1 January 2016 | 2,108,513 | 2,341,975 | 4,450,488 |
| cash flow | 84,664 | - | 84,664 |
| Foreign exchange adjustments | (15,910) | 2,804 | (13,106) |
| Net debt at 31 December 2016 | 2,177,267 | 2,344,779 | 4,522,046 |
| cash flow | (112,927) | - | (112,927) |
| Foreign exchange adjustments | - | 26,720 | 26,720 |
| Net debt at 31 December 2016 | 2,064,340 | 2,371,499 | 4,435,839 |
| Bank | | | |
| Liabilities from financing activities | | | |
| Net debt at 1 January 2016 | 1,281,572 | 2,341,975 | 3,623,547 |
| cash flow | (126,286) | - | (126,286) |
| Foreign exchange adjustments | (1,053) | 2,804 | 1,751 |
| Net debt at 31 December 2016 | 1,154,233 | 2,344,779 | 3,499,012 |
| cash flow | (316,100) | - | (316,100) |
| Foreign exchange adjustments | - | 26,720 | 26,720 |
| Net debt at 31 December 2016 | 838,133 | 2,371,499 | 3,209,632 |

29. FINANCIAL LIABILITIES MEASURED AT AMORTISED COST (continued)
Deposits from customers

Deposits from Customers have seen an upward development driven mainly by current accounts and collateral deposits, on both Retail and Corporate clients. More specifically, high inflows came from Public Sector collateral deposits and Retail current accounts.

| Customer | Group | | Bank | |
|--|-------------------|-------------------|-------------------|-------------------|
| | 2017 | 2016 | 2017 | 2016 |
| in RON thousands | | | | |
| Current accounts / overnight deposits | | | | |
| Savings deposits | | | | |
| General governments | - | - | - | - |
| Other financial corporations | - | - | - | - |
| Non-financial corporations | - | - | - | - |
| Households | 1,985 | 1,629 | - | - |
| Non-savings deposits | | | | |
| General governments | 1,516,554 | 1,320,799 | 1,516,554 | 1,320,799 |
| Other financial corporations | 644,438 | 584,557 | 562,998 | 584,557 |
| Non-financial corporations | 9,092,325 | 7,980,735 | 9,092,325 | 7,861,222 |
| Households | 11,801,602 | 9,373,318 | 11,783,538 | 9,360,643 |
| Deposits with agreed maturity | | | | |
| Savings deposits | | | | |
| General governments | - | - | - | - |
| Other financial corporations | 34,716 | - | - | - |
| Non-financial corporations | - | - | - | - |
| Households | 2,650,999 | 2,875,978 | - | - |
| Non-savings deposits | | | | |
| General governments | 2,661,135 | 2,539,456 | 2,661,135 | 2,539,456 |
| Other financial corporations | 1,156,122 | 653,906 | 1,275,982 | 819,569 |
| Non-financial corporations | 5,990,652 | 5,237,918 | 6,047,091 | 5,222,918 |
| Households | 16,945,534 | 17,666,902 | 16,945,535 | 17,645,745 |
| Total deposits from customers | 52,496,062 | 48,235,198 | 49,885,158 | 45,354,909 |
| General governments | 4,177,689 | 3,860,255 | 4,177,689 | 3,860,255 |
| Other financial corporations | 1,835,276 | 1,238,463 | 1,838,980 | 1,404,126 |
| Non-financial corporations | 15,082,977 | 13,218,653 | 15,139,416 | 13,084,140 |
| Households | 31,400,120 | 29,917,827 | 28,729,073 | 27,006,388 |

Debt securities issued

| Debt securities issued | Group | | Bank | |
|---------------------------------------|----------------|----------------|----------------|----------------|
| | 2017 | 2016 | 2017 | 2016 |
| in RON thousands | | | | |
| Subordinated liabilities | 64,839 | 129,189 | 64,839 | 129,189 |
| Subordinated issues and deposits | 64,839 | 129,189 | 64,839 | 129,189 |
| Other debt securities in issue | 474,809 | 508,003 | 474,809 | 508,003 |
| Bonds (not subordinated) | 474,809 | 508,003 | 474,809 | 508,003 |
| Total debt securities issued | 539,648 | 637,192 | 539,648 | 637,192 |

As of 31 December 2017, the outstanding amount of subordinated bonds issued by the Bank decreased due to matured bonds: EUR 11,000 thousands (2016: EUR 21,000 thousands).

29. FINANCIAL LIABILITIES MEASURED AT AMORTISED COST (continued)
Subordinated loans

No changes in subordinated loans occurred in 2017 compared to 2016

In 2012, the Bank contracted one subordinated loan in EUR as follows:

- EUR 100,000 thousands with the maturity date of 27 June 2022.

In 2009, the Bank contracted one subordinated loan in EUR as follows:

- EUR 120,000 thousands with the maturity date of 30 September 2016. On 28 November 2013 was signed an amendment to the subordinated contract through the maturity of the loan was prolonged until 30 September 2021.

In 2008, the Bank contracted two subordinated loans in RON as follows:

- RON 550,000 thousands with the maturity date on 17 April 2018;
- RON 780,000 thousands with the maturity date on 18 December 2018.

The loan agreements do not stipulate circumstances in which early disbursement is required and contain no provisions for converting subordinated debt in equity or other liability.

The debt ranks after all other creditors in the case of liquidation.

Maturities of subordinated loans are between April 2018 and June 2022, the interest rates are variable in a range between 3.7%-5.45% for EUR and 4.47-5.46% for RON.

Other financial liabilities

| in RON thousands | Group | | Bank | |
|---|------------------|----------------|------------------|----------------|
| | 2017 | 2016 | 2017 | 2016 |
| Intrabanking settlement liabilities | 297,508 | 207,757 | 297,508 | 207,757 |
| Settlement liabilities due to clients | 480,042 | 221,299 | 478,607 | 219,503 |
| Client accounts for securities transactions | 93,768 | 63,455 | 93,768 | 63,455 |
| Financial liabilities - suppliers | 231,360 | 108,399 | 194,753 | 108,399 |
| Other financial liabilities | 42,489 | 108,086 | 41,908 | 109,018 |
| Total other financial liabilities | 1,145,167 | 708,996 | 1,106,544 | 708,132 |

30. PROVISIONS

| in RON thousands | Group | | Bank | |
|---|------------------|------------------|------------------|------------------|
| | 2017 | 2016 | 2017 | 2016 |
| Long-term employee provisions | 42,617 | 45,734 | 42,503 | 45,028 |
| Pending legal issues (i) | 784,050 | 832,991 | 744,220 | 799,205 |
| Commitments and guarantees given | 351,257 | 225,341 | 351,158 | 225,314 |
| Provisions for commitments and guarantees - off balance (defaulted customers) | 264,422 | 167,940 | 264,422 | 167,940 |
| Provisions for commitments and guarantees - off balance (non defaulted customers) | 86,834 | 57,402 | 86,736 | 57,374 |
| Other provisions | 14,641 | 36 | 11,744 | - |
| Total provisions | 1,192,565 | 1,104,102 | 1,149,625 | 1,069,547 |

- (i) Starting with the enactment of Government Emergency Ordinance no.50/2010 on loan agreements for private individuals, as subsequently modified ("Ordinance 50"), the Bank was involved in consumer litigations with certain financial implications. The Law 288 enacted in December 2010 modified Ordinance 50 so that certain provisions are not applicable to loan agreements with individuals existing at the date of the Ordinance 50 issuance.

Following these changes, litigations under the Ordinance 50 were generally dismissed by the Courts and the Bank won most of cases. However, clients have continued to take court actions against the Bank on the grounds of Law no.193/2000 on unfair terms in contracts with consumers, as subsequently modified, that transposes into national law the Directive no. 1993/13/EC on unfair terms in consumer contracts.

Currently, BCR is involved in a number of litigations with ANPC (National Consumer Protection Agency - 10 disputes filed by the institution), having as grounds the interpretations over Law 193/2000 featuring potential cross portfolio contamination effects. 7 of the initial 10 ANPC litigations are in progress, the bank irrevocably winning 3 cases. In other 2 cases BCR lost in first court but appealed. There is no relevant precedent in the market with respect to similar cases.

The Bank has recognized provisions for its obligation to reimburse the customers counterparty in such contracts who are likely to initiate litigations in the future. The provisions recognized represent the best estimate of potential economic outflows related to relevant accounts with clauses that might be assessed as allegedly abusive.

Given the fact that the amount recognized as provision is significant, it is reviewed semi-annually by the Bank in order to take account of the future trends in litigations, new court resolutions for litigations with clients for contracts which contain "allegedly abusive clauses" (of ANPC type or not) and future changes in the relevant legislation.

As at December 2017, the Bank recorded provisions for unfair terms included in contracts which contain "allegedly abusive clauses" and which are not subject to a litigation file as at 31.12.2017 in total amount of RON 661,617 thousands (December 2016: RON 708,193 thousands).

Distinctly by the provision for the future litigations, the bank established a provision for all pending cases having as object individual clients claims regarding allegedly abusive clauses. For individual claims, the Bank has established a provision of RON 64,097 thousands (2016: 51,780 thousands).

30. PROVISIONS (continued)
MOVEMENT IN PROVISIONS (other than long term employee provisions)

| in RON thousands | 2017 | | | | | | Group |
|---|------------------|---|------------------|---|------------------------------|---------------------------------|------------------|
| | Opening balance | Additions, includ. increases in exist. provisions (+) | Amounts used (-) | Unused amounts reversed during the period (-) | Changes in discounted amount | Exchange-rate and other changes | Closing balance |
| Provisions: Pending legal issues and tax litigation (see Note 11) | 832,991 | 24,509 | - | (72,196) | - | (1,254) | 784,050 |
| Commitments and guarantees given (see Note 11) | 225,341 | 205,820 | - | (80,995) | 3,393 | (2,302) | 351,257 |
| Provisions for guarantees - off balance (defaulted customers) | 167,940 | 138,824 | - | (43,151) | 3,393 | (2,584) | 264,422 |
| Provisions for guarantees - off balance (non defaulted customers) | 57,402 | 66,996 | - | (37,844) | - | 280 | 86,834 |
| Other provisions | 36 | 57,035 | - | (42,430) | - | - | 14,641 |
| Provisions for onerous contracts | - | - | - | - | - | - | - |
| Other provisions | 36 | 57,035 | - | (42,430) | - | - | 14,641 |
| Total provisions less long-term employee provisions | 1,058,368 | 287,364 | - | (195,621) | 3,393 | (3,556) | 1,149,948 |

| in RON thousands | 2016 | | | | | | Group |
|---|-----------------|---|------------------|---|------------------------------|---------------------------------|------------------|
| | Opening balance | Additions, includ. increases in exist. provisions (+) | Amounts used (-) | Unused amounts reversed during the period (-) | Changes in discounted amount | Exchange-rate and other changes | Closing balance |
| Provisions: Pending legal issues and tax litigation (see Note 11) | 526,491 | 326,739 | (1,027) | (20,234) | - | 1,022 | 832,991 |
| Commitments and guarantees given (see Note 11) | 242,720 | 120,835 | - | (141,885) | 1,837 | 1,834 | 225,341 |
| Provisions for guarantees - off balance (defaulted customers) | 178,728 | 76,617 | - | (91,134) | 1,837 | 1,892 | 167,940 |
| Provisions for guarantees - off balance (non defaulted customers) | 63,992 | 44,218 | - | (50,752) | - | (56) | 57,402 |
| Other provisions | 1,054 | 25,116 | (9) | (26,127) | - | 2 | 36 |
| Provisions for onerous contracts | 1,054 | - | - | (1,054) | - | - | - |
| Other provisions | - | 25,116 | (9) | (25,073) | - | 2 | 36 |
| Total provisions less long-term employee provisions | 770,265 | 472,690 | (1,036) | (188,246) | 1,837 | 2,858 | 1,058,368 |

| in RON thousands | 2017 | | | | | | Bank |
|---|------------------|---|------------------|---|------------------------------|---------------------------------|------------------|
| | Opening balance | Additions, includ. increases in exist. provisions (+) | Amounts used (-) | Unused amounts reversed during the period (-) | Changes in discounted amount | Exchange-rate and other changes | Closing balance |
| Provisions: Pending legal issues and tax litigation (see Note 11) | 799,205 | 16,254 | - | (71,890) | - | 651 | 744,220 |
| Commitments and guarantees given (see Note 11) | 225,314 | 205,713 | - | (80,957) | 3,393 | (2,305) | 351,158 |
| Provisions for guarantees - off balance (defaulted customers) | 167,940 | 138,823 | - | (43,151) | 3,393 | (2,583) | 264,422 |
| Provisions for guarantees - off balance (non defaulted customers) | 57,374 | 66,890 | - | (37,806) | - | 278 | 86,736 |
| Other provisions | - | 54,174 | - | (42,430) | - | - | 11,744 |
| Provisions for onerous contracts | - | - | - | - | - | - | - |
| Other provisions | - | 54,174 | - | (42,430) | - | - | 11,744 |
| Total provisions less long-term employee provisions | 1,024,519 | 276,141 | - | (195,277) | 3,393 | (1,654) | 1,107,122 |

30. PROVISIONS (continued)

| in RON thousands | Opening balance | Additions, includ. increases in exist. provisions (+) | Amounts used (-) | Unused amounts reversed during the period (-) | Changes in discounted amount | 2016 | Bank |
|---|-----------------|---|------------------|---|------------------------------|---------------------------------|------------------|
| | | | | | | Exchange-rate and other changes | Closing balance |
| Provisions: Pending legal issues and tax litigation (see Note 11) | 510,250 | 308,072 | - | (19,526) | - | 409 | 799,205 |
| Commitments and guarantees given (see Note 11) | 242,709 | 120,798 | - | (141,864) | 1,837 | 1,834 | 225,314 |
| Provisions for guarantees - off balance (defaulted customers) | 178,728 | 76,617 | - | (91,134) | 1,837 | 1,892 | 167,940 |
| Provisions for guarantees - off balance (non defaulted customers) | 63,981 | 44,181 | - | (50,730) | - | (58) | 57,374 |
| Other provisions | 1,054 | 25,071 | - | (26,125) | - | - | - |
| Provisions for onerous contracts | 1,054 | - | - | (1,054) | - | - | - |
| Other provisions | - | 25,071 | - | (25,071) | - | - | - |
| Total provisions less long-term employee provisions | 754,013 | 453,941 | - | (187,515) | 1,837 | 2,243 | 1,024,519 |

LONG TERM EMPLOYEE PROVISIONS

| Long-term employee provisions in RON thousands | Group | | Bank | |
|---|---------------|---------------|---------------|---------------|
| | 2017 | 2016 | 2017 | 2016 |
| Opening defined benefit obligation | 45,734 | 42,452 | 45,028 | 41,856 |
| Interest cost | 1,521 | 1,418 | 1,502 | 1,403 |
| Current service cost | 4,487 | 4,210 | 4,363 | 4,106 |
| Past service cost | (2,757) | (1,855) | (2,120) | (1,883) |
| Benefits paid | (636) | (267) | (618) | (229) |
| Actuarial (gains)/loss on obligations | (5,230) | 654 | (5,150) | 653 |
| effect of changes in financial assumptions | (6,252) | 125 | (6,181) | 124 |
| effect of experience adjustments | 1,022 | 529 | 1,031 | 529 |
| Settlements gain | (502) | (878) | (502) | (878) |
| Total | 42,617 | 45,734 | 42,503 | 45,028 |

According to the collective labor agreement, employees are entitled to one lump sum payment on the date of normal age retirement, of up to 4 gross monthly salaries (the Bank) and up to 2 gross monthly salaries (the subsidiaries), depending on seniority.

This is a defined benefit plan that defines an amount of benefit that an employee is entitled to receive on the date of normal age retirement, dependent on one or more factors such as age, years of service and salary. A full actuarial valuation by a qualified independent actuary is carried out every year.

The plan liability is measured on an actuarial basis using the projected unit credit method. The defined benefit plan liability is discounted using rates equivalent to the market yields at the balance sheet date of government bonds that are denominated in the currency in which benefits will be paid and that have a maturity approximating to the terms of the related liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in the statement of changes in equity.

The principal assumptions used in determining the defined benefit obligation of the Group's plan are shown below:

| | 2017 % | 2016 % |
|-------------------------|-------------|-------------|
| Discount rate | 4.41% | 3.37% |
| Future salary increases | 2.80% | 2.80% |
| Mortality rates | ETTL-PAGLER | ETTL-PAGLER |
| Disability rates | ETTL-PAGLER | ETTL-PAGLER |

30. PROVISIONS (continued)

| Sensitivity analysis | Group | | Bank | |
|--|---------|---------|---------|---------|
| | 2017 | 2016 | 2017 | 2016 |
| Sensitivity - Discount rate +/- % | 0.50% | 0.50% | 0.50% | 0.50% |
| Impact on DBO: Discount rate decrease - | 3,392 | 3,195 | 2,825 | 3,274 |
| Impact on DBO: Discount rate increase + | (2,078) | (3,124) | (2,583) | (2,980) |
| Sensitivity - Salary increase rate +/- % | 0.50% | 0.50% | 0.50% | 0.50% |
| Impact on DBO: Salary increase rate - | (2,130) | (3,154) | (2,634) | (3,009) |
| Impact on DBO: Salary increase rate + | 3,425 | 3,197 | 2,857 | 3,277 |

The average duration of the defined benefit obligation at the end of the reporting period is 15.4 years.

The expected service cost for 2018 is RON 4,118 thousands for Group and RON 3,973 thousands for the Bank.

31. OTHER LIABILITIES

| in RON thousands | Group | | Bank | |
|------------------------------------|----------------|----------------|----------------|----------------|
| | 2017 | 2016 | 2017 | 2016 |
| Payables related to employee cost | 127,184 | 114,317 | 118,090 | 104,065 |
| Taxes payable other than on income | 26,460 | 31,400 | 15,051 | 17,533 |
| Sundry debtors | 30,726 | 59,577 | 8,125 | 9,537 |
| Deferred income | 32,966 | 3,845 | 29,204 | 1,024 |
| Other liabilities | 17,423 | 117,265 | 4,089 | 110,567 |
| Total | 234,759 | 326,404 | 174,559 | 242,726 |

32. ISSUED CAPITAL

The statutory share capital of the Bank as at 31 December 2017 is represented by 16,253,416,254 ordinary shares of RON 0.10 each (31 December 2016: 16,253,416,254 ordinary shares of RON 0.10 each). The shareholders of the Bank are as follows:

| in RON thousands | 2017 | | 2016 | |
|---|-----------------------|------------------------|-----------------------|------------------------|
| | Number of shares | Percentage holding (%) | Number of shares | Percentage holding (%) |
| Erste Group Bank Ceps Holding GmbH | 15,209,810,499 | 93.5792% | 15,209,668,849 | 93.5783% |
| Societatea de Investitii Financiare ("SIF") „Banat Crisana" | 1 | 0.0000% | 1 | 0.0000% |
| Societatea de Investitii Financiare ("SIF") „Muntenia" | 1 | 0.0000% | 1 | 0.0000% |
| Societatea de Investitii Financiare ("SIF") „Oltenia" | 1,023,534,303 | 6.2973% | 1,023,534,303 | 6.2973% |
| SC Actinvest SA | 226,802 | 0.0014% | 226,802 | 0.0014% |
| FDI Certinvest Dinamic | 13,699 | 0.0001% | 13,699 | 0.0001% |
| BCR Leasing SA | 109 | 0.0000% | 109 | 0.0000% |
| Individuals | 19,830,840 | 0.1220% | 19,972,490 | 0.1229% |
| Total | 16,253,416,254 | 100.0000% | 16,253,416,254 | 100.0000% |

The effect of hyperinflation on the share capital of the Bank is presented below:

| in RON thousands | 2017 | 2016 |
|--|------------------|------------------|
| Share capital before the effect of hyperinflation | 1,625,342 | 1,625,342 |
| IAS 29 hyperinflation adjustment recorded in prior years (i.e. until 31 December 2003) | 1,327,224 | 1,327,224 |
| Share capital | 2,952,566 | 2,952,566 |

32. ISSUED CAPITAL (continued)

Regarding the merger, Extraordinary General Shareholders' Meeting held on 30 September 2016 approved that the Merger will take place as follows:

- a) The Bank (BCR) absorbed BCR Real Estate Management (BCR REM) considering that BCR interest in BCR REM is 99.99995% and
- b) The Bank (BCR) absorbed Bucharest Financial Plaza (BFP), 100% owned by BCR REM.

The merger between BCR, BFP and BCR REM was approved by Bucharest Tribunal on 30 January 2017. The decision regarding the authorization of the BCR-REM-BFP Merger was issued on 20 July 2017, and as a result of this operation, REM and BFP were dissolved and de-registered on August 1st 2017.

The effective date of the merger is 31 December 2016. Following the merger, 109 shares were issued by BCR in favor of BCR Leasing in consideration of its holding in BCR REM of 0.00005%. The shares of BCR REM and BFP were cancelled under art 250 a) of the Company Law 31/1990 as subsequently amended and supplemented.

As BCR already owns 100% of the share capital of the absorbing company BFP, as a result of the merger with BCR REM, it is in the situation to remunerate its own shares. The shares held were cancelled under art. 250 letter (a) of the Company Law 31/1990, as subsequently amended and supplemented ("No shares in the absorbing company may be exchanged for shares issued by the absorbed company and held by the absorbing company, directly or through persons acting in their own name, but on behalf of the company.").

According to the provisions of Order 897/2015 (appendix 1, art. 14) "companies undergoing reorganization and which hold shares in each other's share capital shall cancel them at the book value on account of equity elements", BCR eliminated the interests held in BFP amounting to RON 141,900,000, as recorded in the financial statements of the absorbing entity on 31.12.2015.

The merger premium was calculated as the difference between the net contribution to the Merger of each of the Absorbed Companies and the share capital increase recorded by BCR in the case of each of the Absorbed Companies:

- (i) BCR REM's entire net contribution to the Merger (BCR REM's net assets) amounting to RON 82,732,569.1 was recorded by BCR as merger premium; and
- (ii) BFP's entire net contribution to the Merger (BFP's net assets) amounting to RON 143,443,342 was recorded by BCR as merger premium.
- (iii) BCR eliminated the interests held in BCR REM amounting to RON 161,178,890, as recorded in the financial statements of the absorbing entity on 31.12.2015, as well as those held in BFP, amounting to RON 141,900,000.

Consequently, the result of the negative residual value is in amount of RON 76,902,979. The impact of the merger in the retained earnings of the Bank includes the negative residual value and the retained earnings of the two subsidiaries, in amount of 38,029,142 RON.

The accounting policies related to this merger by absorption are presented in Note 2 (14.1).

33. SEGMENT REPORTING

The segment reporting format is determined to be business segments as the Group's risks and rates of return are affected predominantly by differences in the products and services produced. The operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

For management purposes, the Bank is organized into the following business segments:

A. Retail

The Group provides individuals and micro clients with a range of financial products and services, including lending (consumer loans, vehicles purchase, personal needs, mortgages, overdrafts, credit cards facilities and funds transfer facilities), savings and deposit taking business, payment services and securities business.

B. Corporate

Within corporate banking, the Group provides corporations, real estate and large corporate clients with a range of financial products and services, including lending and deposit taking, providing cash management, foreign commercial business, leasing, investment advices, financial planning, securities business, project and structured finance transactions, syndicated loans and asset backed transactions. Principal activity is of handling loans, other credit facilities, deposits, and current accounts for corporate and institutional customers, investment banking services and financial products and services provided by the leasing, insurance, brokerage, asset management, real estate services and financial consultancy services operations of the Group.

The main Corporate segments are:

a. SME, comprising:

- Companies with yearly turnover between EUR 1 mio - EUR 50 mio and a consolidated T/O < EUR 500 mio
- Companies part of a domestic group with at least one company with individual yearly turnover between EUR 1 mio - EUR 50 mio
- Companies part of an international group with at least one company with individual yearly turnover between EUR 1 mio - EUR 500 mio
- Companies with real estate financing for which total project value (including land acquisition, excluding VAT) is less than EUR 8 mio
- Companies with consolidated T/O between EUR 1 mio - EUR 3 mio, segmented as Small SME
- International clients with more than 50% foreign capital participation, turnover between EUR10 mio - EUR 50 mio, or part of a group with consolidated T/O < EUR 500 mio.
- Companies having individual / consolidated turnover below EUR 1 mio.

b. Public Sector (PS):

Public Sector comprises Public sector, Public corporations clients and Non Profit sector, including municipalities representing local authorities and companies managed by local authorities, central authorities and companies owned by state and public funds.

Public sector includes the following institutions:

- Central ministries and state funded funds and agencies
- Non-profit entities established by or under control of central government entities, state funded organizations, state universities or R&D institutions
- Regional governments and organizations funded by them
- State capitals including city halls, regional capitals and other municipals and organizations funded by them. Exceptions: elementary and primary schools, high schools, kindergartens, small hospitals and libraries, which are segmented as Micro
- Public health and social insurance companies Public Corporations include:
- All non-financial state companies and corporations with more than 50% share of state or regional governments or municipals excluding stock exchange listed companies and State Owned Companies acting in Energy & Utilities industry with T/O > 50 mio EUR

c. Local Large Corporates (LLC)

- Companies with an yearly individual turnover above EUR 50 mio;
- Companies part of a local group with at least one company having yearly turnover above EUR 50 mio;
- Energy & Utilities State Owned Companies who meet the above described criteria, are independent of state subsidies and do not make the subject to public intervention in business stability

33. SEGMENT REPORTING (continued)**d. Group Large Corporates (GLC)**

- GLC clients are large corporate clients or client groups with an indicative consolidated annual turnover of at least EUR 500 mio.
- GLC clients cover following clients types in principle:
- Companies with an yearly individual turnover above EUR 500 mio;
- Companies part of a group with a consolidated yearly turnover above EUR 500 mio (regardless of the company's individual turnover listed and to be listed state owned companies)

e. Commercial Real Estate (CRE)

- Companies that request financing of real estate projects with total project value > EUR 8 mio (including land acquisition, excluding VAT)
- All RE existing and targeted clients by Group and local RE business, regardless project value
- Investors in RE for the purpose of generating income from the rental of individual properties or portfolios of properties
- Developers of individual properties or portfolios of properties for the purpose of generating capital gains through sale.
- Asset management services
- Own development for business purpose
- Commercial Real Estate operating leasing and rental contracts, independently of the tenant (client).

Other corporate includes activities related to investment banking services and financial products and services

Other banking segments:

f. ALM & Local Corporate Center:

- Balance sheet management - principally providing assets and liabilities management, funding and derivative transactions, investments and issuance of bonds operations;
- Local Corporate Center - unallocated items, items which do not belong to business lines and Free Capital.

g. Treasury (GMT): - principally providing money market and treasury operations, syndicated loans and structured financing transactions, foreign currency and derivative transactions, financial instruments trading.

h. Financial institutions (GMFI): - companies that provide financial services for their clients or members and act as professional and active participant on financial markets for the purpose of proprietary trading or on behalf of their clients (banks, central banks, investment banks, investments funds, brokerages, insurance companies, pension funds, credit unions).

The business segment reporting format is the Group's basis of segment reporting. Transactions between business segments are conducted at arm's length.

Segment assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise property and equipment, intangible assets, other assets and other liabilities and taxation.

The mapping of individual accounts by main line items of income and expenses, respectively assets and liabilities and equity, for purposes of segment reporting is done on an internal management approach, rather than an external financial reporting approach.

In order to split the Group results on business lines the following subsidiaries are allocated entirely on Retail segment: BCR Pensii SAFPP, Banca pentru Locuinte, Suport Colect and some of the consolidation adjustments; BCR Leasing and BCR Chisinau are allocated on Corporate. Intragroup eliminations and the rest of the consolidation adjustments are allocated on Corporate Center.

In geographical segmentation Erste Group shows BCR entirely under geographical area Romania. Furthermore, the only business done outside Romania is performed by BCR Chisinau, but the contribution to Balance Sheet and P&L is not material. There is no other geographical steering information used by BCR management.

Throughout the following tables related to Segment Reporting the net trading result includes the following positions presented in the statement of income:

- Net trading result
- Result from financial assets and liabilities designated at fair value through profit or loss
- Foreign currency translation



NOTES TO THE FINANCIAL STATEMENTS

Consolidated and Separate for the year ended 31 December 2017

33. SEGMENT REPORTING (continued)

| | 2017 | | | | | | | | | | Group |
|---|-------------|-------------|-----------|-----------|----------|----------|----------|-------------------------------|----------|----------|-------|
| | Group | RETAIL | SME | LLC | GLC | CRE | PS | ALM & Local Corporate Center* | GMT | GMFI | |
| Net interest income | 1,764,197 | 1,202,517 | 217,247 | 92,238 | 71,780 | 47,723 | 166,964 | (42,680) | 446 | 7,962 | |
| Net fee and commission income | 700,738 | 552,246 | 63,333 | 34,655 | 65,294 | 3,177 | 20,969 | (67,096) | 1,748 | 26,415 | |
| Dividend income | 4,155 | - | - | - | - | - | - | 4,155 | - | - | |
| Net trading result | 353,006 | 134,049 | 51,245 | 10,247 | 5,212 | 6,567 | 19,806 | 40,692 | 79,688 | 5,500 | |
| Result from financial assets and liabilities designated at fair value through profit or loss | 1,689 | - | - | - | - | - | 1,689 | - | - | - | |
| Net result from equity method investments | 807 | - | - | - | - | - | - | 807 | - | - | |
| Rental income from investment properties and other operating lease | 63,289 | 324 | 58,746 | - | - | - | - | 4,219 | - | - | |
| General Administrative expenses | (1,544,220) | (1,164,231) | (210,016) | (40,289) | (66,397) | (9,768) | (22,004) | (4,386) | (15,581) | (11,548) | |
| Gains/(losses) on financial assets and liabilities not measured at fair value through profit or loss, net | 151 | - | - | - | - | - | - | 151 | - | - | |
| Net impairment (loss) / reversal on financial assets not measured at fair value through profit or loss | (32,418) | 144,247 | (15,669) | (170,687) | (23,312) | 24,972 | 16,969 | (7,697) | (1,474) | 233 | |
| Other operating result | (406,259) | (13,924) | (76,676) | (107,521) | (27,480) | 140 | (13,157) | (164,061) | (87) | (3,493) | |
| Pre-tax profit from continuing operations | 905,135 | 855,228 | 88,210 | (181,357) | 25,097 | 72,811 | 191,236 | (235,896) | 64,740 | 25,069 | |
| Taxes on income | (237,008) | (136,836) | (14,114) | 29,060 | (4,016) | (11,649) | (30,598) | (54,486) | (10,358) | (4,011) | |
| Post-tax profit from continuing operations | 668,127 | 718,392 | 74,096 | (152,297) | 21,081 | 61,162 | 160,638 | (290,385) | 54,382 | 21,058 | |
| NET PROFIT OF THE YEAR | 668,127 | 718,392 | 74,096 | (152,297) | 21,081 | 61,162 | 160,638 | (290,385) | 54,382 | 21,058 | |
| Attributable to non-controlling interests | 6 | - | 8 | - | - | - | - | (2) | - | - | |
| Attributable to owners of the parent | 668,121 | 718,392 | 74,088 | (152,297) | 21,081 | 61,162 | 160,638 | (290,383) | 54,382 | 21,058 | |
| Operating Income | 2,887,881 | 1,889,136 | 390,571 | 137,141 | 142,286 | 57,467 | 209,428 | (59,906) | 81,882 | 39,876 | |
| Operating Expenses | (1,544,220) | (1,164,231) | (210,016) | (40,289) | (66,397) | (9,768) | (22,004) | (4,386) | (15,581) | (11,548) | |
| Operating Result | 1,343,661 | 724,905 | 180,555 | 96,852 | 75,889 | 47,699 | 187,424 | (64,292) | 66,301 | 28,328 | |
| Cost Income Ratio | 53.47% | 61.63% | 53.77% | 29.38% | 46.66% | 17.00% | 10.51% | -7.32% | 19.03% | 28.96% | |

* All intercompany eliminations are included in the Local Corporate Center



NOTES TO THE FINANCIAL STATEMENTS
Consolidated and Separate for the year ended 31 December 2017

33. SEGMENT REPORTING (continued)

| | Group | 2016 | | | | | | | | | | Group |
|---|--------------------|--------------------|------------------|-----------------|-----------------|-----------------|-----------------|-------------------------------|-----------------|----------------|--|-------|
| | | RETAIL | SME | LLC | GLC | CRE | PS | ALM & Local Corporate Center* | GMT | GMFI | | |
| Net interest income | 1,786,695 | 1,200,787 | 225,028 | 92,023 | 46,092 | 59,617 | 171,801 | (14,160) | 1,620 | 3,887 | | |
| Net fee and commission income | 708,932 | 545,302 | 66,484 | 37,833 | 56,443 | 5,440 | 12,947 | (44,153) | 2,914 | 25,722 | | |
| Dividend income | 2,878 | - | - | - | - | - | - | 2,878 | - | - | | |
| Net trading result | 314,317 | 108,342 | 46,061 | 11,591 | 5,660 | 4,864 | 19,491 | 20,123 | 90,299 | 7,886 | | |
| Net result from equity method investments | 1,795 | - | - | - | - | - | - | 1,795 | - | - | | |
| Rental income from investment properties and other operating lease | 53,549 | - | 49,419 | - | - | - | - | 4,130 | - | - | | |
| General Administrative expenses | (1,570,497) | (1,243,426) | (212,389) | (44,787) | (71,515) | (11,809) | (22,941) | 57,954 | (11,657) | (9,927) | | |
| Gains/(losses) on financial assets and liabilities not measured at fair value through profit or loss, net | 111,747 | - | - | - | - | - | - | 111,747 | - | - | | |
| Net impairment (loss) / reversal on financial assets not measured at fair value through profit or loss | 279,990 | 31,426 | (13,993) | 126,238 | (5,813) | 147,451 | 9,751 | (12,298) | (2,445) | (327) | | |
| Other operating result | (518,915) | (369,243) | (16,919) | 14,307 | (8,845) | (43,250) | 12,779 | (106,699) | (64) | (981) | | |
| Pre-tax profit from continuing operations | 1,170,491 | 273,188 | 143,691 | 237,205 | 22,022 | 162,313 | 203,828 | 21,317 | 80,667 | 26,260 | | |
| Taxes on income | (130,428) | (43,710) | (22,991) | (37,953) | (3,523) | (25,970) | (32,612) | 53,440 | (12,907) | (4,202) | | |
| Post-tax profit from continuing operations | 1,040,063 | 229,478 | 120,700 | 199,252 | 18,499 | 136,343 | 171,216 | 74,757 | 67,760 | 22,058 | | |
| NET PROFIT OF THE YEAR | 1,040,063 | 229,478 | 120,700 | 199,252 | 18,499 | 136,343 | 171,216 | 74,757 | 67,760 | 22,058 | | |
| Attributable to non-controlling interests | (1,783) | (1,790) | 9 | - | - | - | - | (2) | - | - | | |
| Attributable to owners of the parent | 1,041,846 | 231,268 | 120,691 | 199,252 | 18,499 | 136,343 | 171,216 | 74,759 | 67,760 | 22,058 | | |
| Operating Income | 2,868,166 | 1,854,431 | 386,992 | 141,447 | 108,195 | 69,921 | 204,239 | (29,387) | 94,833 | 37,495 | | |
| Operating Expenses | (1,570,497) | (1,243,426) | (212,389) | (44,787) | (71,515) | (11,809) | (22,941) | 57,954 | (11,657) | (9,927) | | |
| Operating Result | 1,297,669 | 611,005 | 174,603 | 96,660 | 36,680 | 58,112 | 181,298 | 28,567 | 83,176 | 27,568 | | |
| Cost Income Ratio | 54.76% | 67.05% | 54.88% | 31.66% | 66.10% | 16.89% | 11.23% | 197.21% | 12.29% | 26.48% | | |

* All intercompany eliminations are included in the Local Corporate Center

33. SEGMENT REPORTING (continued)

| | Group | 2017 | | | | | | | | | | Group | |
|--|-------------------|-------------------|------------------|------------------|------------------|------------------|------------------|-------------------------------|------------------|------------------|------------|-----------|-----------|
| | | RETAIL | SME | LLC | GLC | CRE | PS | ALM & Local Corporate Center* | GMT | GMFI | | | |
| ASSETS | | | | | | | | | | | | | |
| Cash and cash balances | 11,369,344 | 4,454,408 | 110,817 | - | - | - | - | - | - | - | 6,368,647 | 325,055 | 110,417 |
| Financial assets - held for trading | 104,694 | - | (73) | (1,174) | (44) | (41) | - | - | - | - | 20,943 | 85,083 | - |
| Derivatives | 41,449 | - | (73) | (1,174) | (44) | (41) | - | - | - | - | 20,943 | 21,838 | - |
| Other trading assets | 63,245 | - | - | - | - | - | - | - | - | - | - | 63,245 | - |
| Financial assets designated at fair value through profit or loss | 15,131 | 15,131 | - | - | - | - | - | - | - | - | - | - | - |
| Financial assets - available for sale | 6,599,950 | 425,063 | 30,033 | - | - | - | 229,121 | - | - | - | 5,915,733 | - | - |
| Financial assets - held to maturity | 14,756,894 | 1,335,851 | 45,315 | - | - | - | - | - | - | - | 13,375,728 | - | - |
| Loans and receivables to credit institutions | 2,215,113 | 1,081,030 | 44,715 | - | - | - | - | - | - | - | (449,673) | 1,539,041 | - |
| Loans and receivables to customers | 33,490,883 | 18,980,755 | 4,708,029 | 1,832,090 | 2,653,083 | 1,347,434 | 3,731,534 | - | - | - | 223,325 | - | 14,833 |
| Property and equipment | 1,315,683 | 1,901 | 297,654 | - | - | - | - | - | - | - | 1,016,128 | - | - |
| Intangible assets | 320,872 | 2,584 | 4,057 | - | - | - | - | - | - | - | 314,231 | - | - |
| Investments in associates | 17,375 | - | - | - | - | - | - | - | - | - | 17,375 | - | - |
| Tax assets | 86,736 | - | - | - | - | - | - | - | - | - | 86,736 | - | - |
| Deferred tax assets | 168,778 | 3,875 | 9,793 | - | - | - | - | - | - | - | 155,110 | - | - |
| Non-current assets and disposal groups classified as held for sale | 43,039 | - | - | - | - | - | - | - | - | - | 43,039 | - | - |
| Other assets | 305,257 | 57,963 | 94,721 | - | - | - | - | - | - | - | 152,573 | - | - |
| TOTAL ASSETS | 70,931,239 | 26,358,561 | 5,345,061 | 1,830,916 | 2,653,039 | 1,347,393 | 3,960,655 | 27,361,385 | 1,949,179 | 125,050 | | | |
| LIABILITIES | | | | | | | | | | | | | |
| Financial liabilities held for trading | 44,661 | - | (2) | (1) | (34) | 3 | - | - | - | - | 23,057 | 21,638 | - |
| Derivatives | 44,661 | - | (2) | (1) | (34) | 3 | - | - | - | - | 23,057 | 21,638 | - |
| Financial liabilities measured at amortised cost | 62,007,067 | 34,964,059 | 4,877,010 | 1,183,348 | 4,928,439 | 537,180 | 6,196,941 | 6,844,107 | - | - | 6,844,107 | 104,790 | 2,371,193 |
| Deposits from banks | 7,826,190 | 166,459 | 1,737,763 | - | - | - | - | - | - | - | 5,505,861 | 86,043 | 330,064 |
| Deposits from customers | 52,496,062 | 34,708,443 | 3,092,546 | 1,179,444 | 4,915,680 | 537,180 | 6,004,811 | - | - | - | 18,523 | - | 2,039,435 |
| Debt securities issued | 539,648 | - | - | - | - | - | - | - | - | - | 539,648 | - | - |
| Other financial liabilities | 1,145,167 | 89,157 | 46,701 | 3,904 | 12,759 | - | 192,130 | 780,075 | - | - | 18,747 | - | 1,694 |
| Derivatives - hedge accounting | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Provisions | 1,192,565 | 698,801 | 36,470 | 209,013 | 93,952 | 68 | 3,964 | 150,244 | - | - | 230 | - | 53 |
| Current tax liabilities | 230 | - | - | - | - | - | - | - | - | - | - | - | - |
| Deferred tax liabilities | 25 | 19 | 216 | - | - | - | - | - | - | - | (210) | - | - |
| Other Liabilities | 234,759 | 25,466 | 32,257 | - | - | - | - | - | - | - | 177,036 | - | - |
| Total equity | 7,439,113 | 2,059,424 | 649,764 | 311,091 | 319,996 | 108,965 | 353,048 | 3,581,630 | 38,363 | - | 16,832 | - | 16,832 |
| TOTAL LIABILITIES AND EQUITY | 70,931,239 | 37,747,769 | 5,595,715 | 1,703,451 | 5,342,353 | 646,216 | 6,553,953 | 10,788,913 | 164,791 | 2,388,078 | | | |

* All intercompany eliminations are included in the Local Corporate Center

33. SEGMENT REPORTING (continued)

| | Group | 2016 | | | | | | | | | | Group | |
|--|-------------------|-------------------|------------------|------------------|------------------|------------------|------------------|-------------------------------|------------------|------------------|------------|---------|--------|
| | | RETAIL | SME | LLC | GLC | CRE | PS | ALM & Local Corporate Center* | GMT | GMFI | | | |
| ASSETS | | | | | | | | | | | | | |
| Cash and cash balances | 11,911,895 | 4,235,400 | 135,282 | - | - | - | - | - | - | - | 7,461,243 | 20,005 | 59,965 |
| Financial assets - held for trading | 633,199 | - | - | - | - | - | - | - | - | - | 73,486 | 559,713 | - |
| Derivatives | 73,486 | - | - | - | - | - | - | - | - | - | 73,486 | - | - |
| Other trading assets | 559,713 | - | - | - | - | - | - | - | - | - | - | 559,713 | - |
| Financial assets designated at fair value through profit or loss | 15,319 | - | - | - | - | - | - | - | 15,319 | - | - | - | - |
| Financial assets - available for sale | 5,574,087 | 676,113 | 57,115 | - | - | - | - | - | 237,919 | - | 4,602,940 | - | - |
| Financial assets - held to maturity | 13,904,201 | 1,498,698 | 19,306 | - | - | - | - | - | (3,460) | - | 12,389,657 | - | - |
| Loans and receivables to credit institutions | 552,830 | 743,662 | 58,020 | - | - | - | - | - | - | - | (746,361) | 485,293 | 12,216 |
| Loans and receivables to customers | 32,291,134 | 18,059,871 | 4,031,038 | 2,722,456 | 1,567,194 | 1,421,983 | 4,292,147 | 174,416 | 8,237 | - | 1,180,790 | - | 13,792 |
| Property and equipment | 1,472,604 | 2,621 | 289,193 | - | - | - | - | - | - | - | - | - | - |
| Investment properties | 422 | - | 422 | - | - | - | - | - | - | - | - | - | - |
| Intangible assets | 289,304 | 2,643 | 3,288 | - | - | - | - | - | - | - | 283,373 | - | - |
| Investments in associates | 16,568 | - | - | - | - | - | - | - | - | - | 16,568 | - | - |
| Tax assets | 162,480 | - | - | - | - | - | - | - | - | - | 162,480 | - | - |
| Deferred tax assets | 322,508 | 2,119 | 12,172 | - | - | - | - | - | - | - | 308,217 | - | - |
| Non-current assets and disposal groups classified as held for sale | 2,292 | - | - | - | - | - | - | - | - | - | 2,292 | - | - |
| Other assets | 365,730 | 90,963 | 93,073 | - | - | - | - | - | - | - | 181,694 | - | - |
| TOTAL ASSETS | 67,514,573 | 25,312,090 | 4,693,909 | 2,722,456 | 1,567,194 | 1,421,983 | 4,541,925 | 26,090,795 | 1,073,248 | 85,973 | | | |
| LIABILITIES | | | | | | | | | | | | | |
| Financial liabilities held for trading | 38,391 | - | - | - | - | - | - | - | - | - | 38,391 | - | - |
| Derivatives | 38,391 | - | - | - | - | - | - | - | - | - | 38,391 | - | - |
| Financial liabilities measured at amortised cost | 59,236,059 | 33,283,374 | 4,451,975 | 1,614,807 | 4,209,543 | 395,208 | 4,586,350 | 9,058,526 | 20,679 | - | 1,615,597 | - | - |
| Deposits from banks | 9,654,673 | 95,661 | 1,540,930 | - | - | - | - | 7,834,133 | 8,201 | - | 175,748 | - | - |
| Deposits from customers | 48,235,198 | 33,130,662 | 2,908,131 | 1,602,321 | 4,201,043 | 395,208 | 4,582,212 | (19,760) | - | - | 1,435,381 | - | - |
| Debt securities issued | 637,192 | - | - | - | - | - | - | 637,192 | - | - | - | - | - |
| Other financial liabilities | 708,996 | 57,051 | 2,914 | 12,486 | 8,500 | - | 4,138 | 606,961 | 12,478 | - | 4,468 | - | - |
| Provisions | 1,104,102 | 340,269 | 28,215 | 108,254 | 77,382 | 520 | 933 | 548,518 | - | - | 11 | - | - |
| Current tax liabilities | 1,262 | - | - | - | - | - | - | 1,262 | - | - | - | - | - |
| Deferred tax liabilities | 3,966 | 2,827 | 573 | - | - | - | - | 566 | - | - | - | - | - |
| Other Liabilities | 326,404 | 36,941 | 39,708 | - | - | - | - | 249,755 | - | - | - | - | - |
| Total equity | 6,804,389 | 2,022,898 | 517,688 | 413,500 | 218,836 | 126,848 | 422,636 | 3,037,083 | 39,999 | - | 4,901 | - | - |
| TOTAL LIABILITIES AND EQUITY | 67,514,573 | 35,686,309 | 5,038,159 | 2,136,561 | 4,505,761 | 522,576 | 5,009,919 | 12,934,101 | 60,678 | 1,620,509 | | | |

* All intercompany eliminations are included in the Local Corporate Center



NOTES TO THE FINANCIAL STATEMENTS
Consolidated and Separate for the year ended 31 December 2017

33. SEGMENT REPORTING (continued)

| | 2017 | | | | | | | | | |
|---|--------------------|--------------------|------------------|------------------|-----------------|----------------|-----------------|------------------------------------|-----------------|-----------------|
| | Bank | RETAIL | SME | LLC | GLC | CRE | PS | ALM & Local Corporate Center | GMT | GMFI |
| Net interest income | 1,678,727 | 1,190,110 | 144,122 | 92,238 | 71,854 | 47,723 | 166,964 | (42,782) | 479 | 8,019 |
| Net fee and commission income | 661,160 | 511,137 | 64,823 | 34,655 | 65,294 | 3,177 | 20,969 | (67,058) | 1,748 | 26,415 |
| Dividend income | 19,872 | - | - | - | - | - | - | 19,872 | - | - |
| Net trading result | 346,464 | 134,064 | 44,161 | 10,247 | 5,212 | 6,567 | 19,806 | 41,219 | 79,688 | 5,500 |
| Result from financial assets and liabilities designated at fair value through profit or loss | 1,689 | - | - | - | - | - | 1,689 | - | - | - |
| Rental income from investment properties and other operating lease | 9,840 | - | - | - | - | - | - | 9,840 | - | - |
| General Administrative expenses | (1,431,973) | (1,126,663) | (134,488) | (40,289) | (66,397) | (9,768) | (22,004) | (5,235) | (15,581) | (11,548) |
| Gains/(losses) on financial assets and liabilities not measured at fair value through profit or loss, net | 151 | - | - | - | - | - | - | 151 | - | - |
| Net impairment (loss) / reversal on financial assets not measured at fair value through profit or loss | (22,699) | 146,637 | (8,339) | (170,688) | (23,312) | 24,972 | 16,969 | (7,697) | (1,474) | 233 |
| Other operating result | (456,210) | 11,075 | (52,181) | (107,522) | (27,480) | 140 | (13,157) | (263,506) | (87) | (3,493) |
| Pre-tax profit from continuing operations | 807,021 | 866,360 | 58,098 | (181,359) | 25,171 | 72,811 | 191,236 | (315,195) | 64,773 | 25,126 |
| Taxes on income | (236,712) | (138,618) | (9,296) | 29,061 | (4,027) | (11,649) | (30,598) | (57,201) | (10,364) | (4,020) |
| Post-tax profit from continuing operations | 570,309 | 727,742 | 48,802 | (152,298) | 21,144 | 61,162 | 160,638 | (372,396) | 54,409 | 21,106 |
| NET PROFIT OF THE YEAR | 570,309 | 727,742 | 48,802 | (152,298) | 21,144 | 61,162 | 160,638 | (372,396) | 54,409 | 21,106 |
| Operating Income | 2,717,752 | 1,835,311 | 253,106 | 137,140 | 142,360 | 57,467 | 209,428 | (38,909) | 81,915 | 39,934 |
| Operating Expenses | (1,431,973) | (1,126,663) | (134,488) | (40,289) | (66,397) | (9,768) | (22,004) | (5,235) | (15,581) | (11,548) |
| Operating Result | 1,285,779 | 708,648 | 118,618 | 96,851 | 75,963 | 47,699 | 187,424 | (44,144) | 66,334 | 28,386 |
| Cost Income Ratio | 52.69% | 61.39% | 53.14% | 29.38% | 46.64% | 17.00% | 10.51% | -13.45% | 19.02% | 28.92% |



NOTES TO THE FINANCIAL STATEMENTS

Consolidated and Separate for the year ended 31 December 2017

33. SEGMENT REPORTING (continued)

| | 2016 | | | | | | | | | | Bank |
|---|--------------------|--------------------|------------------|-----------------|-----------------|-----------------|-----------------|------------------------------|-----------------|----------------|------|
| | Bank | RETAIL | SME | LLC | GLC | CRE | PS | ALM & Local Corporate Center | GMT | GMFI | |
| Net interest income | 1,726,463 | 1,179,666 | 155,974 | 92,024 | 46,092 | 59,617 | 171,801 | 15,782 | 1,620 | 3,887 | |
| Net fee and commission income | 672,086 | 509,049 | 65,843 | 37,833 | 56,443 | 5,440 | 12,947 | (44,105) | 2,914 | 25,722 | |
| Dividend income | 5,004 | - | - | - | - | - | - | 5,004 | - | - | |
| Net trading result | 309,098 | 108,660 | 40,372 | 11,590 | 5,661 | 4,864 | 19,490 | 20,276 | 90,299 | 7,886 | |
| Net result from equity method investments | - | - | - | - | - | - | - | - | - | - | |
| Rental income from investment properties and other operating lease | 1,014 | - | - | - | - | - | - | 1,014 | - | - | |
| General Administrative expenses | (1,567,739) | (1,199,721) | (150,973) | (44,787) | (71,514) | (11,809) | (22,941) | (44,410) | (11,657) | (9,927) | |
| Gains/(losses) on financial assets and liabilities not measured at fair value through profit or loss, net | 111,754 | - | - | - | - | - | - | 111,754 | - | - | |
| Net impairment (loss) / reversal on financial assets not measured at fair value through profit or loss | 217,288 | (40,864) | (5,063) | 126,238 | (5,814) | 147,451 | 9,752 | (11,640) | (2,445) | (327) | |
| Other operating result | (468,927) | (318,217) | 330 | 14,307 | (8,845) | (43,250) | 12,779 | (124,986) | (64) | (981) | |
| Pre-tax profit from continuing operations | 1,006,041 | 238,573 | 106,483 | 237,205 | 22,023 | 162,313 | 203,828 | (71,311) | 80,667 | 26,260 | |
| Taxes on income | (119,955) | (38,171) | (17,037) | (37,953) | (3,524) | (25,970) | (32,612) | 52,421 | (12,907) | (4,202) | |
| Post-tax profit from continuing operations | 886,086 | 200,402 | 89,446 | 199,252 | 18,499 | 136,343 | 171,216 | (18,890) | 67,760 | 22,058 | |
| NET PROFIT OF THE YEAR | 886,086 | 200,402 | 89,446 | 199,252 | 18,499 | 136,343 | 171,216 | (18,890) | 67,760 | 22,058 | |
| Operating Income | 2,713,665 | 1,797,375 | 262,189 | 141,447 | 108,196 | 69,921 | 204,238 | (2,029) | 94,833 | 37,495 | |
| Operating Expenses | (1,567,739) | (1,199,721) | (150,973) | (44,787) | (71,514) | (11,809) | (22,941) | (44,410) | (11,657) | (9,927) | |
| Operating Result | 1,145,926 | 597,654 | 111,216 | 96,660 | 36,682 | 58,112 | 181,297 | (46,439) | 83,176 | 27,568 | |
| Cost Income Ratio | 57.77% | 66.75% | 57.58% | 31.66% | 66.10% | 16.89% | 11.23% | -2188.76% | 12.29% | 26.48% | |

33. SEGMENT REPORTING (continued)

| | 2016 | | | | | | | | | |
|--|-------------------|-------------------|------------------|------------------|------------------|------------------|------------------|------------------------------|------------------|------------------|
| | Bank | RETAIL | SME | LLC | GLC | CRE | PS | ALM & Local Corporate Center | GMT | Bank |
| ASSETS | | | | | | | | | | |
| Cash and cash balances | 11,648,878 | 4,100,081 | - | - | - | - | - | 7,468,827 | 20,005 | 59,965 |
| Financial assets - held for trading | 633,199 | - | - | - | - | - | - | 73,486 | 559,713 | - |
| Derivatives | 73,486 | - | - | - | - | - | - | 73,486 | - | - |
| Other trading assets | 559,713 | - | - | - | - | - | - | - | 559,713 | - |
| Financial assets designated at fair value through profit or loss | 15,319 | - | - | - | - | - | 15,319 | - | - | - |
| Financial assets - available for sale | 4,845,303 | - | 4,444 | - | - | - | 237,919 | 4,602,940 | - | - |
| Financial assets - held to maturity | 12,386,197 | - | - | - | - | - | (3,460) | 12,389,657 | - | - |
| Loans and receivables to credit institutions | 651,414 | - | - | - | - | - | - | 153,905 | 485,293 | 12,216 |
| Loans and receivables to customers | 31,162,509 | 17,870,369 | 2,695,762 | 2,722,456 | 1,421,983 | 4,292,146 | 570,570 | 570,570 | 8,237 | 13,792 |
| Property and equipment | 1,158,548 | - | - | - | - | - | - | 1,158,548 | - | - |
| Intangible assets | 280,699 | - | - | - | - | - | - | 280,699 | - | - |
| Investments in associates | 7,509 | - | - | - | - | - | - | 7,509 | - | - |
| Tax assets | 159,029 | - | - | - | - | - | - | 159,029 | - | - |
| Deferred tax assets | 310,554 | - | - | - | - | - | - | 310,554 | - | - |
| Non-current assets and disposal groups classified as held for sale | 2,292 | - | - | - | - | - | - | 2,292 | - | - |
| Other assets | 806,775 | - | - | - | - | - | - | 806,775 | - | - |
| TOTAL ASSETS | 64,068,225 | 21,970,450 | 2,700,206 | 2,722,456 | 1,567,194 | 1,421,983 | 4,541,924 | 27,984,791 | 1,073,248 | 85,973 |
| LIABILITIES | | | | | | | | | | |
| Financial liabilities held for trading | 38,391 | - | - | - | - | - | - | 38,391 | - | - |
| Derivatives | 38,391 | - | - | - | - | - | - | 38,391 | - | - |
| Financial liabilities measured at amortised cost | 55,825,328 | 30,308,312 | 2,714,426 | 1,614,807 | 4,209,543 | 395,208 | 4,586,350 | 10,360,407 | 20,678 | 1,615,597 |
| Deposits from banks | 9,125,095 | - | - | - | - | - | - | 8,941,146 | 8,201 | 175,748 |
| Deposits from customers | 45,354,909 | 30,253,056 | 2,711,512 | 1,602,321 | 4,201,043 | 395,208 | 4,582,212 | 174,176 | - | 1,435,381 |
| Debt securities issued | 637,192 | - | - | - | - | - | - | 637,192 | - | - |
| Other financial liabilities | 708,132 | 55,256 | 2,914 | 12,486 | 8,500 | - | 4,138 | 607,893 | 12,477 | 4,468 |
| Provisions | 1,069,547 | 310,455 | 26,331 | 108,254 | 77,382 | 520 | 933 | 545,661 | - | 11 |
| Other Liabilities | 242,726 | - | - | - | - | - | - | 242,726 | - | - |
| Total equity | 6,892,233 | 1,939,816 | 356,365 | 413,500 | 222,933 | 126,948 | 422,636 | 3,362,178 | 40,022 | 7,935 |
| TOTAL LIABILITIES AND EQUITY | 64,068,225 | 32,558,583 | 3,097,122 | 2,136,561 | 4,509,858 | 522,576 | 5,009,919 | 14,549,363 | 60,700 | 1,623,543 |

34. RETURN ON ASSETS AND TURNOVER INFORMATION

Return on assets (net profit for the year divided by average total assets) was:

| | Group | | Bank | |
|-------------------------|--------------|--------------|--------------|--------------|
| | 31.12.2017 | 31.12.2016 | 31.12.2017 | 31.12.2016 |
| Return on assets | 0.97% | 1.60% | 0.87% | 1.43% |

The Bank applies the stipulations of NBR Regulation 5/2013 regarding prudential requirements for credit institutions.

The consolidated turnover for the financial exercise ended 31 December 2017 amounts to RON 3,598,575 thousands (2016: RON 3,788,846 thousands) and is calculated and presented in compliance with Article 644 of the above mentioned regulation.

35. LEASES
a) Finance leases

Finance leases receivables are included under the balance sheet item 'Loans and advances to customers'.

The Group acts as a lessor under finance leases through the subsidiary BCR Leasing SA, mainly on motor vehicles and equipment. The leases are mainly denominated in EUR and typically run for a period of between 1-15 years, with transfer of ownership of the leased asset at the end of the lease term. Interest is charged over the period of the lease based on fixed and variable (based on EURIBOR) interest rates. The receivables are secured by the underlying assets and by other collateral. Loans and advances to retail and corporate customers include the following finance lease receivables:

| | 2017 | 2016 |
|--|------------------|------------------|
| Outstanding minimum lease payments | 1,518,957 | 1,291,629 |
| Gross investment | 1,518,957 | 1,291,629 |
| Unrealised financial income | (47,665) | (76,540) |
| Net investment | 1,471,292 | 1,215,089 |
| Present value of minimum lease payments | 1,471,291 | 1,215,089 |

The maturity analysis of gross investment in leases and present values of minimum lease payments under non-cancellable leases is as follows (residual maturities):

| | Gross investment | |
|--------------|------------------|------------------|
| | 2017 | 2016 |
| < 1 year | 695,437 | 426,251 |
| 1-5 years | 805,599 | 854,513 |
| > 5 years | 17,921 | 10,865 |
| Total | 1,518,957 | 1,291,629 |

b) Operating leases

Under operating leases, BCR Group lease both real estate and movable property to other parties.

Minimum lease receivable from non-cancellable operating leases, from the view of BCR Group and Bank as lessor, were as follows:

| | Group | | Bank | |
|--------------|----------------|----------------|--------------|--------------|
| | 2017 | 2016 | 2017 | 2016 |
| < 1 year | 60,759 | 101,906 | 579 | 1,041 |
| 1-5 years | 143,713 | 305,827 | 1,013 | 781 |
| > 5 years | 77,490 | 225,653 | 164 | 585 |
| Total | 281,962 | 633,386 | 1,756 | 2,407 |

35. LEASES (continued)

Minimum lease payments from non-cancellable operating leases, from the view of BCR Group and Bank as lessee, were as follows:

| | Group | | Bank | |
|--------------|----------------|---------------|----------------|---------------|
| | 2017 | 2016 | 2017 | 2016 |
| < 1 an | 27,803 | 8,972 | 23,438 | 6,400 |
| 1-5 ani | 87,322 | 26,493 | 80,687 | 22,313 |
| > 5 ani | 22,213 | 32,682 | 21,740 | 32,682 |
| Total | 137,338 | 68,147 | 125,865 | 61,395 |

The increase in 2017 is due to the fact that most of the head office of the Group was relocated in a new head office building, "The Bridge" (impact of RON 94 million representing the rent for ten years).

Lease payments from operating leases recognized as expense in the period amounted to RON 69,283 thousands (2016: RON 57,710 thousands) for Group and RON 61,527 thousands (2016: RON 163,083 thousands) for Bank. Decrease in operating lease expense for the Bank is due to merger of real estate subsidiaries.

36. RELATED-PARTY TRANSACTIONS AND PRINCIPAL SHAREHOLDERS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at 31 December 2017 and 2016 are detailed below. Transactions were entered into with related parties during the course of business at market rates.

Transactions with parent

All transactions were carried out at market conditions.

Transactions with management

The Group entered into a number of banking transactions with the management in the normal course of business.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group. This includes the members of the Supervisory Board, Executive Committee and executive management.

These transactions were carried out on commercial terms and conditions and at market rates.

Remuneration paid related to key management personnel is presented in note 8.

Transactions with subsidiaries

The Bank holds investments in subsidiaries with whom it entered into a number of banking transactions in the normal course of business. These transactions were carried out on commercial terms and conditions and at market rates.

Transactions with other related parties

The Group considers the following additional related parties: entities in which the Group owns participations, entities in which the Parent or other controlling entities either have control or have participations, companies in which key management personnel have direct or indirect interests, and close family members of key management personnel.

36. RELATED-PARTY TRANSACTIONS AND PRINCIPAL SHAREHOLDERS (continued)

The following transactions were carried out with related parties:

| | Group | | | | | | | |
|---|-----------|------------|--------------------------|-----------------------|-----------|------------|--------------------------|-----------------------|
| | 2017 | | | 2016 | | | | |
| Balances and off-balance exposures with related parties | Parent | Associates | Key management personnel | Other related parties | Parent | Associates | Key management personnel | Other related parties |
| in RON thousands | | | | | | | | |
| Financial assets | 2,424,478 | - | 12,943 | 77,271 | 177,579 | - | 9,713 | 76,282 |
| Cash and cash equivalents | 367,891 | - | - | - | 97,558 | - | - | - |
| Derivative financial instruments | 24,581 | - | - | - | 47,270 | - | - | - |
| Loans and advances | 2,032,007 | - | 12,943 | 77,271 | 32,751 | - | 9,713 | 76,282 |
| Loans and advances with credit institutions* | 2,032,007 | - | - | - | 32,751 | - | - | - |
| Loans and advances with customers | - | - | 12,943 | 77,271 | - | - | 9,713 | 76,282 |
| Other assets | - | 7,509 | - | 12,556 | - | - | - | 26,380 |
| Financial liabilities | 5,600,744 | 40,555 | 8,313 | 96,704 | 8,483,833 | 45,528 | 7,283 | 170,349 |
| Deposits | 5,559,632 | 40,555 | 8,313 | 96,704 | 8,447,898 | 45,528 | 7,283 | 170,349 |
| Deposits by banks | 5,559,632 | - | - | 1,759 | 8,447,898 | - | - | 2,936 |
| Deposits by customers | - | 40,555 | 8,313 | 94,945 | - | 45,528 | 7,283 | 167,414 |
| Derivative financial instruments | 41,112 | - | - | - | 35,935 | - | - | - |
| Other liabilities | - | - | - | 42,577 | 11,143 | - | - | 47,287 |
| Loans commitments, financial guarantees and other commitments given - Irrevocable [notional amount] | 46,519 | - | - | 391 | 8,955 | - | - | 684 |
| Loans commitments, financial guarantees and other commitments given - Revocable [notional amount] | - | - | 517 | 38,343 | - | - | 590 | 41,186 |
| Loan commitments, financial guarantees and other commitments received | 239,402 | - | - | - | 233,738 | - | - | - |
| Derivatives [notional amount] | 5,616,117 | - | - | - | 6,181,824 | - | - | - |

Loans and advances with credit institutions increased in 2017 due to reverse repo deals concluded with Erste Group Bank AG, in amount of RON 1,936 million.

36. RELATED-PARTY TRANSACTIONS AND PRINCIPAL SHAREHOLDERS (continued)

Related parties: expenses and income generated by transactions with related parties

| in RON thousands | 2017 | | | | | 2016 | | | | |
|--|----------------|------------|--------------------------|-----------------------|----------------|------------|--------------|--------------------------|-----------------------|----------|
| | Parent | Associates | Key management personnel | Other related parties | Group | Parent | Associates | Key management personnel | Other related parties | Group |
| Interest income | 48,482 | - | 373 | 804 | 60,018 | - | - | 395 | 1,160 | - |
| Interest expenses | 228,669 | 142 | 11 | 158 | 294,324 | 639 | - | 26 | 523 | - |
| Dividend income | - | - | - | 2,062 | - | - | - | - | 1,662 | - |
| Fee and commission income | 4,930 | 2 | 36 | 57,860 | 3,838 | 3 | 25 | - | 4,010 | - |
| Fee and commission expenses | 5,781 | - | - | 11,883 | 7,183 | - | - | - | 119 | - |
| Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss | - | - | - | - | - | - | - | - | - | - |
| Gains or (-) losses on derecognition of non-financial assets | - | - | - | - | - | - | - | - | - | - |
| Increase or (-) decrease during the period in impairment for subsidiaries | - | - | - | - | - | - | - | - | - | - |
| Net trading results (income)/expense | 69,008 | - | - | (27) | (47,487) | - | - | - | - | - |
| Other operating income | - | - | - | 29,550 | - | - | - | - | - | 724 |
| Other operating expense | - | - | - | 63,553 | 18,866 | - | - | - | - | 70,245 |
| Profit before tax (income)/expense | 250,046 | 139 | (395) | (14,710) | 209,030 | 636 | (395) | (395) | 63,331 | - |

Balances and off-balance exposures with related parties

| | 2017 | | | | | 2016 | | | | |
|--|------------------|------------------|---------------|--------------------------|-----------------------|------------------|----------------|---------------|--------------------------|-----------------------|
| | Parent | Subsidiaries | Associates | Key management personnel | Other related parties | Parent | Subsidiaries | Associates | Key management personnel | Other related parties |
| in RON thousands | | | | | | | | | | |
| Financial assets | 2,424,478 | 485,917 | - | 12,943 | 77,271 | 102,725 | 467,045 | - | 9,713 | 76,282 |
| Cash and cash equivalents | 367,891 | 390 | - | - | - | 22,712 | 617 | - | - | - |
| Derivative financial instruments | 24,581 | - | - | - | - | 47,270 | - | - | - | - |
| Equity instruments | - | - | - | - | - | - | - | - | - | - |
| Loans and advances | 2,032,007 | 485,527 | - | 12,943 | 77,271 | 32,743 | 466,428 | - | 9,713 | 76,282 |
| Loans and advances with credit institutions* | 2,032,007 | 209,895 | - | 12,943 | 77,271 | 32,743 | 105,735 | - | 9,713 | 76,282 |
| Loans and advances with customers | - | 275,632 | - | - | - | - | 360,693 | - | - | - |
| Other assets | 5,600,744 | 1,165,975 | 40,555 | 8,313 | 96,704 | 7,514,034 | 809,916 | 45,528 | 7,283 | 170,349 |
| Financial liabilities | 5,559,632 | 1,165,975 | 40,555 | 8,313 | 96,704 | 7,478,099 | 809,916 | 45,528 | 7,283 | 170,349 |
| Deposits by banks | 5,559,632 | 989,662 | - | - | - | 7,478,099 | 639,974 | - | - | 2,936 |
| Deposits by customers | - | 176,313 | 40,555 | 8,313 | 96,704 | - | 169,942 | 45,528 | 7,283 | 167,414 |
| Derivative financial instruments | 41,112 | - | - | - | - | 35,935 | - | - | - | - |
| Other liabilities | - | 8,929 | - | - | 42,577 | 11,123 | 9,013 | - | - | 47,010 |
| Loans commitments, financial guarantees and other commitments given -irrevocable [notional amount] | 46,519 | 14,306 | - | 517 | 391 | 8,955 | 26,238 | - | 590 | 684 |
| Loans commitments, financial guarantees and other commitments given -Revocable [notional amount] | - | 345,380 | - | - | 38,343 | - | 560,153 | - | - | 41,186 |
| Loan commitments, financial guarantees and other commitments received | 239,402 | - | - | - | - | 233,738 | - | - | - | - |
| Derivatives [notional amount] | 5,616,117 | - | - | - | 6,181,824 | - | - | - | - | - |

36. RELATED-PARTY TRANSACTIONS AND PRINCIPAL SHAREHOLDERS (continued)

| Related parties: expenses and income generated by transactions with related parties | 2017 | | | | | | 2016 | | | | | |
|--|----------------|---------------|------------|--------------------------|-----------------------|----------|----------------|----------------|--------------|--------------------------|-----------------------|----------|
| | Parent | Subsidiaries | Associates | Key management personnel | Other related parties | Bank | Parent | Subsidiaries | Associates | Key management personnel | Other related parties | Bank |
| Interest income | 48,482 | 9,195 | - | 373 | 804 | - | 59,987 | 34,755 | - | 395 | 1,160 | - |
| Interest expenses | 228,669 | 7,190 | 142 | 11 | 158 | - | 282,681 | 4,890 | 639 | 26 | 523 | - |
| Dividend income | - | 15,718 | - | - | 2,062 | - | - | 705 | 1,420 | - | 1,662 | - |
| Fee and commission income | 4,930 | 4,752 | 2 | 36 | 57,860 | - | 3,826 | 6,828 | 3 | 25 | 4,010 | - |
| Fee and commission expenses | 5,781 | 2 | - | - | 11,883 | - | 4,006 | 3 | - | 0 | 119 | - |
| Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss | - | 10 | - | - | - | - | - | 3 | - | - | 1,070 | - |
| Gains or (-) losses on derecognition of non-financial assets | - | - | - | - | - | - | - | - | - | - | - | - |
| Increase or (-) decrease during the period in impairment for subsidiaries | - | 97,410 | - | - | - | - | - | 48,855 | - | - | - | - |
| Net trading results (income)/expense | 69,008 | - | - | - | (27) | - | (47,487) | - | - | - | - | - |
| Other operating income | - | 8,202 | - | - | 29,550 | - | - | 11,811 | - | - | 195 | - |
| Other operating expense | - | 1,407 | - | - | 63,553 | - | 18,576 | 203,442 | - | - | 69,945 | - |
| Profit before tax (income)/expense | 250,046 | 68,132 | 139 | (399) | (14,710) | - | 193,964 | 203,087 | (784) | (395) | 62,490 | - |

For the purpose of the merger, as of 31 December 2016, the following inter-company balances between BCR, REM and BFP were eliminated:

| Absorbed entity | Short description | RON thousands |
|-----------------|---------------------------------|---------------|
| BFP | Deposits from customers | 36,552 |
| BFP | Loans and advances to customers | 133,788 |
| REM | Deposits from customers | 999 |
| REM | Other liabilities | 559 |
| REM | Loans and advances to customers | 642,770 |
| REM | Other assets | 48 |

37. ENCUMBERED ASSETS (SECURITIES)

| in RON thousands | Group | | Bank | |
|---------------------------------------|----------------|----------------|------------------|------------------|
| | 2017 | 2016 | 2017 | 2016 |
| Financial assets - available for sale | 141,831 | - | 557,101 | 461,222 |
| Financial assets - held to maturity | 617,019 | 780,155 | 1,168,374 | 881,003 |
| Total - repurchase agreements | 758,849 | 780,155 | 1,725,475 | 1,342,225 |

On 31 December 2017, government bonds with a total value of RON 617,019 thousands (31 December 2016: RON 780,155 thousands) have been used as pledge for funding received from IFIs and to ensure final settlement of interbank multilateral clearing operations according to NBR regulations, for the settlement of transactions through ROCLEAR Bucharest, NBR's Clearing House, and VISA and MasterCard card transactions.

Encumbered assets include securities used for repo transactions (see further details in note 38) and securities pledged as collateral for various purposes, as described above.

38. TRANSFERS OF FINANCIAL ASSETS – REPURCHASE TRANSACTIONS AND SECURITIES LENDING
38.1 REPURCHASE TRANSACTIONS AND SECURITIES LENDING

Transfer of financial assets – repurchase transactions were done within BCR Group, therefore eliminated at consolidated level.

| in RON thousands | Group | | | |
|---------------------------------------|---------------------------------------|---|---------------------------------------|---|
| | Carrying amount of transferred assets | Carrying amount of associated liabilities | Carrying amount of transferred assets | Carrying amount of associated liabilities |
| | 2017 | | 2016 | |
| Financial assets - available for sale | 141,831 | 142,175 | - | - |
| Financial assets - held to maturity | - | - | - | - |
| Total - repurchase agreements | 141,831 | 142,175 | - | - |

| in RON thousands | Bank | | | |
|---------------------------------------|---------------------------------------|---|---------------------------------------|---|
| | Carrying amount of transferred assets | Carrying amount of associated liabilities | Carrying amount of transferred assets | Carrying amount of associated liabilities |
| | 2017 | | 2016 | |
| Financial assets - available for sale | 557,101 | 535,356 | 461,222 | 438,166 |
| Financial assets - held to maturity | 551,355 | 517,453 | 100,848 | 99,796 |
| Total - repurchase agreements | 1,108,456 | 1,052,809 | 562,070 | 537,962 |

The transferred financial instruments consist of government bonds issued by Romania.

The total amount RON 1,108,456 thousands (RON 562,070 thousands at 31 December 2016) represents the carrying amount of financial assets in the respective balance sheet positions for which the transferee has a right to sell or repledge.

Liabilities from repo transaction in the amount of RON 1,052,809 thousands (RON 537,962 thousands at 31 December 2016), which are measured at amortised cost, represent an obligation to repay the borrowed funds.

38. TRANSFERS OF FINANCIAL ASSETS – REPURCHASE TRANSACTIONS AND SECURITIES LENDING (continued)
38.1 REPURCHASE TRANSACTIONS AND SECURITIES LENDING (continued)

The following table shows fair values of the transferred assets and associated liabilities which have recourse only to the transferred assets. These assets and liabilities relate to repo transactions.

| in RON thousands | Group | | | |
|---------------------------------------|----------------------------------|--------------------------------------|----------------------------------|--------------------------------------|
| | Fair value of transferred assets | Fair value of associated liabilities | Fair value of transferred assets | Fair value of associated liabilities |
| | 2017 | | 2016 | |
| Financial assets - available for sale | 141,831 | 143,553 | - | - |
| Financial assets - held to maturity | - | - | - | - |
| Total | 141,831 | 143,553 | - | - |

| in RON thousands | Bank | | | |
|---------------------------------------|----------------------------------|--------------------------------------|----------------------------------|--------------------------------------|
| | Fair value of transferred assets | Fair value of associated liabilities | Fair value of transferred assets | Fair value of associated liabilities |
| | 2017 | | 2016 | |
| Financial assets - available for sale | 557,101 | 563,970 | 461,222 | 438,008 |
| Financial assets - held to maturity | 546,094 | 552,827 | 104,974 | 99,760 |
| Total | 1,103,195 | 1,116,797 | 566,196 | 537,768 |

Repurchase agreements are primarily financing transactions. They are structured as a sale and subsequent repurchase of securities at a pre-agreed price and time. This ensures that the securities stay in hands of lender as collateral in case that borrower defaults in fulfilling any of its obligations.

Cash and non-cash financial collateral involved in these transactions is restricted from using it by the transferor during the time of the pledge. The carrying amount of assets pledged is included in note 37.

As at 31 December 2017, The Bank concluded reverse repurchase transactions in amount of 2,261,491 RON thousands, with maturities between 03.01.2018 and 29.05.2019. The Bank received as collateral financial assets consisting in government bonds issued by Romania and Spain having a fair value of RON 2,420,181 thousands. The Bank has the right to sell or repledge the asset in the absence of default by the owner of the collateral. As at 31 December 2017, part of the collateral was repledged by the Bank. Associated liabilities for collateral repledged are in amount of RON 726 thousands.

| in RON thousands | 2017 | | 2016 | |
|--|------------------------------|--------------------------|------------------------------|--------------------------|
| | Carrying value of the assets | Fair value of collateral | Carrying value of the assets | Fair value of collateral |
| Reverse sale and repurchase agreements with other banks with original maturities of less than three months | | | | |
| Cash and cash equivalents | 325,055 | 345,909 | - | - |
| Loans and receivables to credit institutions | 1,936,436 | 2,074,272 | - | - |
| Total | 2,261,491 | 2,420,181 | - | - |

38.2 TRANSFERRED FINANCIAL ASSETS THAT ARE DERECOGNISED IN THEIR ENTIRETY BUT WHERE THE BANK HAS CONTINUING INVOLVEMENT

In 2016 and 2017, the Group sold two portfolios of loans to unrelated third parties. According to contractual clauses the Group has retained involvement in the transferred assets due to several clauses: put back clause that the buyer can exercise, contractual obligation for General Claim, indemnity, upside sharing could be received by the Group after a certain level of profitability/collections would be realized by the buyer, call option of BCR to take back selected sold loans.

In this respect the following amounts have been assessed by the Group as at 31 December:

- contingent liabilities as at 31.12.2017, in amount of RON 11.2 mn (31.12.2016: RON 14.5 mn);
- provisions booked as Other provisions under Other Operating Result, in amount of RON 14.5 mio (31.12.2016: RON 0 mio);
- provisions booked as pending legal issue provisions, in amount of RON 27.3 mio (31.12.2016: RON 22 mio).

39. RISK MANAGEMENT

Risk Management is embedded within the daily operation of the Bank, from strategy formulation and capital projects, through to operational planning and processes. In adopting this approach, the Bank provides a visible assurance of transparency and effective self-governance to stakeholders. At the same time the risk process assists the Bank in the planning of its resources, setting priorities, identifying opportunities, agreeing a relevant program of internal control and audit, and ensures that clear responsibility exists for the management of each area of risk.

39.1. RISK POLICY AND RISK STRATEGY

The Risk Strategy forms an essential part of the Group's Enterprise-wide Risk Management (ERM) framework. It sets out the general principles according to which risk taking is performed across the Group and the main elements of its management framework to ensure an adequate and consistent implementation of the risk strategy.

The Risk Strategy also includes the formulation of the risk appetite and the risk profile for all identified risks in the context of its overall business strategy and defines, for each main risk type, the current and targeted risk profile.

The core function of the Bank is to take risks in a conscious and selective manner and to manage the risks professionally. The Group's proactive risk policy and risk strategy aims at achieving balanced risk and return in order to generate a sustainable and adequate return on equity.

The Group uses a risk management and control system that is forward-looking and tailored to its business and risk profile. This system is based on a clear risk strategy that is consistent with the business strategy and focused on early identification and management of risks and trends. In addition to meeting the internal goal of effective and efficient risk management, The Group's risk management and control system has been developed to fulfil external and, in particular, regulatory requirements.

Given the Group's business strategy, the key risks for the Group are credit risk, market risk, operational and non-financial risks, and liquidity risk. In addition, a risk materiality assessment is undertaken on an annual basis. It is ensured that all relevant material risks are covered by the Group's control and risk management framework. This entails a set of different tools and governance to ensure adequate oversight of the overall risk profile and sound execution of the risk strategy, including appropriate monitoring and escalation of issues that could materially impact the risk profile of the group. The Bank always seeks to enhance and complement existing methods and processes in all areas of risk management.

In 2017, the management has continued to steer critical portfolios, including active management and sales of non-performing exposures, and further strengthening of the risk profile. This has been particularly demonstrated by the continuous improvement of the credit quality and the ongoing decrease of non-performing loans and risk costs. Management actions resulted in improved profitability, asset quality, lending and capital levels. In addition, emphasis was put on strengthening risk governance and ensuring compliance with regulatory requirements.

The Group uses the Internet as the medium for publishing its disclosures under NBR Regulation no. 5 / 2013 regarding prudential requirements for credit institutions and to Article 434 of the Regulation (EU) No. 575/2013 on prudential requirements for credit institutions and investment firms (Capital Requirements Regulation - CRR). Details are available in the Disclosure Report on the website of the Group.

39.2. RISK GOVERNANCE STRUCTURE

The Bank has developed a governance model based on a framework which ensures efficiently organized corporate governance. It also helps ensuring the Bank's stability and maintains the corporate governance standards and of business conduct.

The Risk Governance structure is presented below:

Supervisory Board

The Supervisory Board secures the supervision, manages and coordinates the Management Board activity and the compliance with the law and the BCR Charter provisions and the decisions of the General Meeting of Shareholders. The Supervisory Board functions based on its own Internal Rules.

The Risk Management Committee of the Supervisory Board

The Risk Management Committee assists the Supervisory Board in carrying out its attributions in relation to risk management and is a consultative entity which revises, reports to, counsels and assists the Supervisory Board in fulfilling attributions which fall in its responsibility in relation to risk management and issues recommendations according to the authority limits established through the Internal Rules.

39. RISK MANAGEMENT (continued)

39.2 RISK GOVERNANCE STRUCTURE (continued)

The Audit and Compliance Committee

The Audit and Compliance Committee has a consultative role, as it was established in order to assist the Supervisory Board in carrying out its attributions, drafting recommendations within the limits of its competencies, according to its responsibilities and attributions provisioned in the Internal Rules, in relation to internal control, compliance, audit, financial crime and litigations.

Management Board

The Management Board fulfils the management, according to the law and secures the operational management of the Bank and effective administration of the compliance risk, having responsibilities established by the applicable legislation and by the Management Board Internal Rules, approved by the Supervisory Board.

The Management Board is responsible for the overall risk strategy of the Bank, including the risk tolerance/risk appetite, as well as for the risk management framework.

Risk Committee of the Management Board

Risk Committee of Management Board is organized and works as analysis/ pre-approval/ approval body referring to the main subjects linked to risk administration, within the authority limits established through the Internal Rules and other specific internal regulations.

39.3. RISK MANAGEMENT ORGANIZATION

Risk control and risk steering within the Group are performed based on the strategy and risk appetite approved by the Supervisory Board. Risk monitoring and control are achieved through a clear organizational structure with defined roles and responsibilities, delegated authorities and risk limits.

The management of retail and corporate credit risk, market risk, operational risk, liquidity as well as reputational risk and strategic risk, the assessment of collaterals and other risk related activities are consolidated under the Risk functional line. The Compliance Division (in charge with compliance risk) and Financial Crime Prevention Division (in charge with fraud risk management) are reporting under Executive VP Risk Line.

In these terms, risk management specialists are clearly delimited from an organizational point of view from the employees of the operational and support functions.

The Risk Management function is a central organizational function, structured so it can implement risk policies and control the risk management framework.

The main roles of the Risk Management function are:

- Ensures that all material risks are identified, measured and properly reported;
- Implements the Enterprise Risk Management principles and ensures that adequate and consistent risk management policies are developed and implemented for all material risks; and
- Ensures that the Bank has effective risk management processes in place by being involved the elaboration and review of the strategies, in the decision-making process, as well as in the risk monitoring process.

The Risk Management function performs regular reports both at individual material risk level and at bank-wide risk exposure level (i.e. complete view of the whole range of risks) to the Management Board, the Risk Committee of the Management Board, the Risk Management Committee of the Supervisory Board and the Supervisory Board of the risk aspects that are considered within the decision making process of the Bank.

Reports include information on aspects such as:

- Risk exposures and their development;
- Key risk indicators evolution and specific limits;
- Results of the stress testing exercises; and
- Internal capital adequacy (i.e. risk bearing capacity).

39. RISK MANAGEMENT (continued)

39.3 RISK MANAGEMENT ORGANIZATION (continued)

The Risk Management function is consolidated under the Risk Functional Line, coordinated by the Chief Risk Officer (Vice-President) to which the following organizational units performing the risk management function are subordinated:

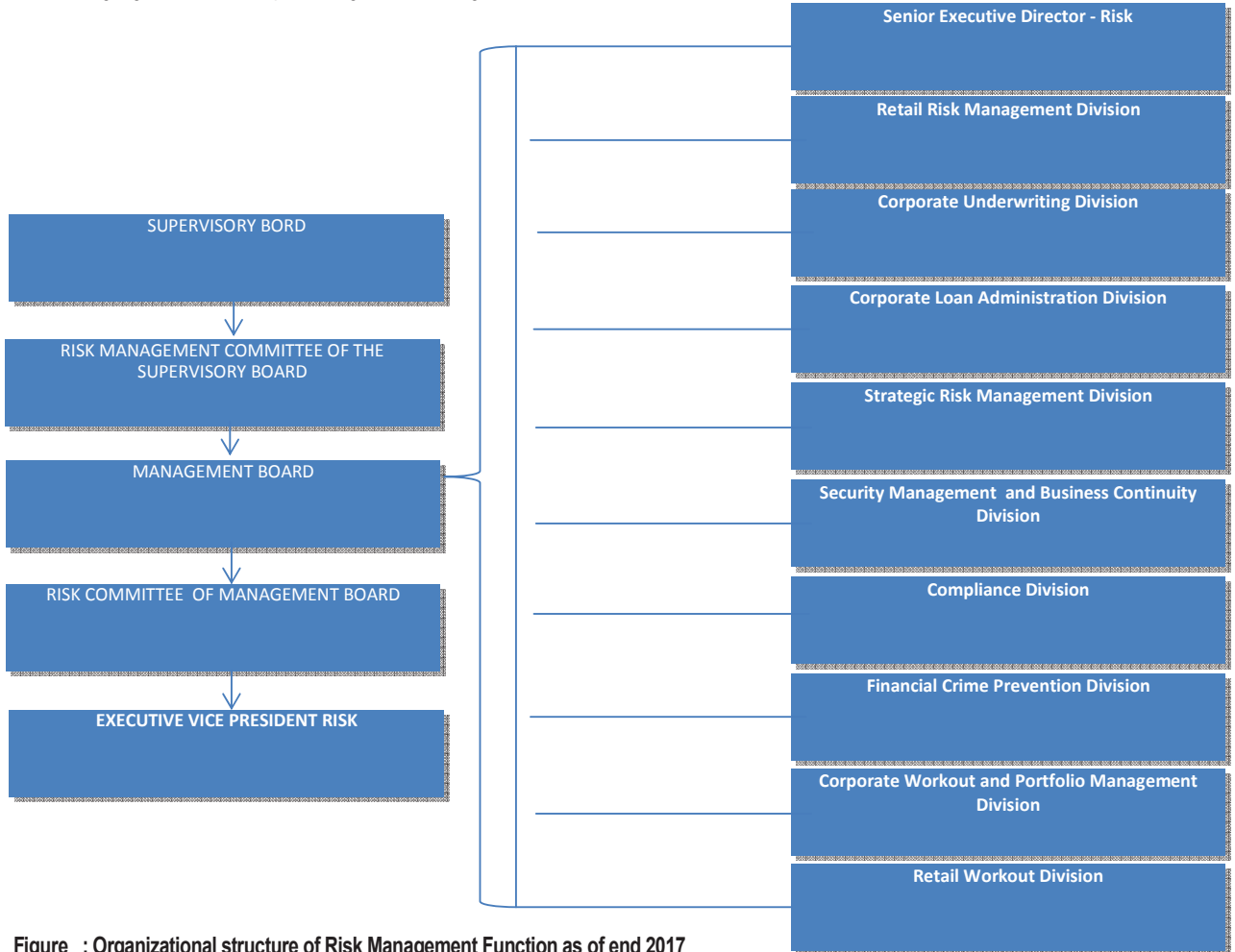


Figure : Organizational structure of Risk Management Function as of end 2017

39.4. GROUP-WIDE RISK AND CAPITAL MANAGEMENT

The main purposes of the Group's capital management policies and practices are to support its business strategy and to ensure that it is sufficiently capitalised to withstand even severe macroeconomic downturns.

The Group considers the management of risk and capital to be among its core responsibilities and a key factor in providing a stable, high return to shareholders. The Group's capital management aims to ensure efficient use of capital to meet the Group's overall capital targets.

Enterprise-wide Risk Management (ERM) enables an increased focus on holistic risk management and ensures comprehensive, cross-risk Group-wide risk portfolio steering.

ERM drives key strategic cross-risk initiatives to establish greater cohesion between the risk strategy including the risk appetite and limit steering. ERM involves all risk functions and key divisions to strengthen risk oversight group-wide, covering capital (RWA and ICAAP), credit, liquidity (ILAAP), market, operational and other risks.

At the Bank level, Strategic Risk Management Division is responsible for the group's Internal Capital Adequacy Assessment Process (ICAAP) including the stress testing framework, and furthermore for the proper calculation of risk-weighted assets (RWA), risk portfolio steering with respect to material risks, risk planning and risk input into capital planning, risk appetite and limit management, as well as liquidity & market risk / operational risk steering.

39. RISK MANAGEMENT (continued)**39.4 GROUP-WIDE RISK AND CAPITAL MANAGEMENT (continued)**

As in prior years, the Group's risk management framework has been continuously strengthened. In particular, ERM has continued to strengthen its comprehensive framework. This includes as its fundamental pillar the Internal Capital Adequacy Assessment Process (ICAAP), as required under Pillar II of the Basel framework.

The ERM framework is designed to support the bank's management in managing the risk portfolios as well as the coverage potential to ensure that the bank holds at all times adequate capital for the nature and magnitude of the bank's risk profile. ERM is tailored to the Group's business and risk profile, and it reflects the strategic goal of protecting shareholders while ensuring the sustainability of the organization.

ERM is a modular and comprehensive management and steering system within the Group and is an essential part of the overall steering and management instruments. The ERM can be clustered as follows:

- Risk appetite statement;
- Portfolio & risk analytics, including:
 - Risk materiality assessment
 - Concentration risk management
 - Stress testing
- Risk-bearing capacity calculation
- Risk planning & forecasting, including:
 - Risk-weighted asset management
 - Capital allocation
- Recovery Plan.

In addition to the ICAAP's ultimate goal of assuring capital adequacy and sustainability at all times, the ERM components serve to support the bank's management in pursuing its strategy.

39.4.1. Risk Management Principles

The Group aims at achieving balanced risk and return in order to generate a sustainable growth and adequate return on equity. Hence, the scope of this strategy is to ensure that risks are assumed in the context of its business, recognized at an early stage and properly managed. This is achieved by fully integrating risk management into daily business activities, strategic planning and developing the business consistently with the defined risk appetite.

The relevant risk management principles are presented below:

- Core risk management responsibilities embedded in Management Board and appropriately delegated to designated committees to ensure execution and oversight. Also, the Supervisory Board regularly monitors risk profile;
- Risk management governance ensures full oversight of risk and sound execution of risk strategy including appropriate monitoring and escalation of issues materially impacting the Group's risk profile;
- Risk strategy based on Risk Appetite and Strategic Guidelines to ensure full alignment of risk, capital and performance targets;
- Stress testing and concentration risk analysis conducted to ensure sound risk management in line with risk strategy & RAS and holistic risk awareness;
- All material risks managed and reported in coordinated manner via risk management processes;
- Modeling and measurement approaches for quantifying risk and, where applicable, capital demand as well as regular validation;
- Data, effective systems, processes and policies as critical components of the risk management capability; and
- Policy framework clearly defines key requirements related to creating, classifying, approving, implementing and maintaining policies across the Group;
- An integrated and institution-wide risk culture, based on a full understanding of the risks taken and how they are managed, taking into account BCR risk appetite / tolerance;
- The Bank has a risk management function independent from the operational functions and which must have sufficient authority, stature, resources and access to the management body;

39. RISK MANAGEMENT (continued)**39.4 GROUP-WIDE RISK AND CAPITAL MANAGEMENT (continued)**

- Risk management function ensures that all material risks are identified, measured and properly reported. It is playing a key role within the bank, ensuring that it has effective risk management processes in place;
- The risk management function is actively involved in elaborating the institution's risk strategy and in all material risk management decisions and that it can deliver a complete view of the whole range of risks of the institution;
- The Bank has robust governance arrangements, which include a clear organizational structure with well defined, transparent and consistent lines of responsibility, effective processes to identify, manage, monitor and report the risks they are or might be exposed to, adequate internal control mechanisms;
- All major risk classes are managed in a coordinated manner via risk management process, including credit, market, operational, liquidity, reputational and strategic risk;
- Appropriate monitoring, stress testing tools and escalation process in place for key capital and liquidity thresholds and metrics;
- Effective systems, processes and policies are a critical component of the risk management capability;
- The Bank's operational structure is consistent with the approved business strategy and risk profile;
- The management body is responsible for the approval of sound strategies and policies for establishment of new structures;
- The management body establishes, maintains and reviews, on an on-going mode, adequate strategies, policies and procedures for approval and maintenance of such structures and activities, to provide that they remain consistent with their declared scope.

39.4.2. Proportionality Principles

The principle of proportionality is an important part of Pillar II requirements. The organizational requirements depend on nature, scale and complexity of the Bank and its activities.

Risk management principles, concepts and processes are generally designed, developed and implemented to address over-arching organizational needs across the Group reflecting a high degree of granularity and detail. The proportionality principle is an integral part of the Group's overall risk framework and strategy.

The subsidiaries set their own governance responsibilities and evaluate any the Group decisions or practices to ensure that they do not put the subsidiary in breach of regulatory provisions or prudential rules applicable on a solo basis in Romania and in other countries where they activate.

39.4.3. Risk appetite

The Group defines its Risk Strategy and Risk Appetite Statement (RAS) through the annual strategic planning process to ensure appropriate alignment of risk, capital and performance targets. The Group RAS represents a strategic statement expressing the maximum level of risk that the Group is prepared to accept in order to achieve its business objectives. It consists of a set of core metrics providing quantitative direction for risk steering and qualitative statements in the form of key risk principles that form part of the strategic guidelines for managing risks. The key objective of the RAS is to:

- ensure that the Group has sufficient resources to support its business at any given point in time and absorb stress events;
- set boundaries for the Group's risk-return target setting;
- preserve and promote the market's perception of the Group's financial strength and the robustness of its systems and controls.

The setting of the Group risk appetite is forward-looking in order to foster risk return steering and ensure proactive management of the risk profile. External constraints such as regulatory requirements set the ceiling for the RAS and the amount of risk Group is willing to accept. In order to ensure that the Group remains within the targeted risk profile a Red Amber Green system was established and assigned to the core metrics. This approach allows a timely delivery of information to the respective governance and the implementation of effective remediation measures. A pre-defined threshold describes a level or event which triggers an escalation to the designated governance and the discussion of potential remediation actions. The breaching of a pre-defined limit, initiates an immediate escalation to the designated governance and a prompt implementation of remediation actions.

Moreover, stress triggers are defined for selected core metrics and integrated into the assessment of the stress test results. They are reported

39. RISK MANAGEMENT (continued)**39.4 GROUP-WIDE RISK AND CAPITAL MANAGEMENT (continued)**

as early warning signals to the Management Board to support proactive management of the risk and capital profile.

In addition, strategic risk limits and principles are defined based on the Group RAS in the Group Risk Strategy. These limits and principles support the implementation of the mid to long term risk strategy. Risk management governance ensures full oversight over all risk decisions and the proper execution of the risk strategies. Risk mitigating actions are undertaken as part of the regular risk management process to ensure that the Group remains within its defined RAS.

The RAS horizon covers 5 years to ensure a stronger interplay with the other strategic processes such as long-term planning, budgeting. The remuneration program was also directly linked to the Group RAS to reinforce the risk culture and risk awareness within the Group. In that light, the determination of the annual bonus pool must consider if the relevant core metrics are within the Group RAS. The Group RAS 2017 was pre-approved by both Management Board and the Risk Committee of the Management Board and approved by the Supervisory Board, as part of the increased role of the Supervisory Board in RAS setting and monitoring. The Group RAS framework streamlines core capital, liquidity, and risk/earnings metrics as well as reinforces key risk principles that form part of guidelines for managing risks. In addition, the Group RAS strengthens internal governance responsible for oversight of the risk profile development, embeds RAS into strategic planning and budgeting processes as well as day-to-day management, and ensures timely management actions in case of adverse developments.

39.4.4. Portfolio and risk analytics

The Group uses dedicated infrastructure, systems and processes to actively identify, control and manage risks within the scope of the portfolio. Portfolio and risk analytics processes are designed to quantify, qualify and discuss risks in order to raise awareness to management in a timely manner.

39.4.4.1. Risk materiality assessment

The Bank has implemented and continuously develops its risk materiality framework. This process is not limited to the risk function and therefore various bank entities are involved in order to ensure the comprehensiveness of the assessment. Such broad involvement of the Bank improves the understanding of the sources of risk, clarifies how risks relate to specific business activities, and provides the best chances of identifying newly emerging risks.

The risk materiality assessment is an annual process with the purpose of systematically identifying new and assessing existing material risks for the Group. The process uses a combination of quantitative and qualitative factors in the assessment of each risk type.

This assessment represents the starting point of the ICAAP process, as identified material risk types need to be considered either directly by dedicating economic capital or indirectly through adequate consideration within other ICAAP framework elements. Insights generated by the assessment are used to improve risk management practices and further mitigate risks within the group. The assessment also serves as an input for the design and definition of the Group's Risk Strategy and Risk Appetite Statement.

39.4.4.2. Risk Profile

The risk profile is represented by the aggregated actual and potential risk exposures of the Bank. As part of its risk strategy, the Group analyses its actual risk profile and determines a target risk profile based on its strategic goals. The risk profile is a result of the risk assessment process in combination with the boundaries set by the business strategy and the risk appetite framework. The risk profile is a key input in setting the business objectives, policies, risk appetite and the internal control environment in the Bank.

39.4.4.3. Risk concentration analysis

The BCR concentration risk framework outlines the standards needed to identify, measure, monitor, and mitigate concentration risks, whose implementation is essential to ensure the long-term viability of any financial institution, especially in the case of stressed economic conditions. Concentration risk is addressed through the banks' comprehensive limit framework and specific concentration analyses.

39. RISK MANAGEMENT (continued)

39.4 GROUP-WIDE RISK AND CAPITAL MANAGEMENT (continued)

39.4.4.4. Stress testing

Stress testing is a key risk management tool which supports the Bank in taking a forward-looking view in risk management as well as in strategic, business, risk, capital and liquidity planning. In this sense, stress testing is a vital element of the bank's Enterprise Risk Management (ERM) framework.

Stress testing the Bank's vulnerability to severe but plausible future deteriorations of the economic environment provides key insight in the sustainability and robustness of the bank and helps regarding timely preparation and execution of contingency plans and mitigating actions.

Results of stress testing have to be analyzed for further consideration, particularly with regard to the bank's planning and budgeting process, Risk Materiality Assessment or the Risk-bearing Capacity Calculation.

Based on forward – looking hypothetical severe macroeconomic scenarios, BCR performs a yearly comprehensive stress testing exercise which seeks to identify any potential vulnerabilities of the bank and provide further robustness to the measuring, steering and management system.

Reverse stress testing, which assesses scenarios and circumstances that would jeopardize the bank's solvability, earnings and economic capital adequacy, complements the bank's stress testing program. Unlike the comprehensive stress testing, reverse stress testing starts from an outcome of business failure and identifies under what circumstances this might occur, for the purpose of identifying possible combinations of risk events / concentrations.

Under the comprehensive stress test exercise, the bank assessed the sensitivity of its loss experience to changes in its key risk parameters. Stress scenarios are characterized by a progressive deterioration of the macroeconomic context both at a national and international level were used to impact, amongst other elements, the default rate and recovery rate of the institution.

Under the stress test scenario at an increase in the default rate by 45 basis points for the Bank and 61 basis points for the Group, coupled with a reduced recovery capacity, the loss experience increased compared to the business as usual forecast by RON 226,022 thousands for the Bank and RON 323,098 thousands for the Group respectively.

| | Group | Bank |
|---------------------------------------|------------|------------|
| In RON thousands | 31.12.2017 | 31.12.2017 |
| Change in loss experience (abs) | | |
| Increase budget vs stress scenario by | 323,098 | 226,022 |

39.4.4.5. Risk Capacity

Risk capacity (also known as risk-bearing capacity) represents the Bank's overall ability to absorb potential losses. Risk capacity can be measured in terms of cash and cash equivalents to meet liquidity demands and in terms of capital and reserves to cover potential losses.

The Bank defines the Risk-bearing capacity as a prospective view of risk that is useful in establishing allocations of risk, capital or both to drive value for the shareholders and the organization as a whole.

The risk-bearing capacity of the Group represents a measure of the total risk exposure for Pillar II purposes. Risk Capacity is the maximum amount of risk which the Bank is technically able to assume before breaching one or more of its capital base, liquidity, and borrowing capacity, reputational and regulatory constraints. The risk capacity represents the upper limit beyond which a breach is likely to result in failure. The Bank defines the risk capacity of the organization prior to framing strategy and setting risk appetite.

Within the risk-bearing capacity calculation (RCC), the quantified risks are aggregated and compared to the coverage potential. The integral forecast, risk appetite as well as a traffic light system support management in its discussions and decision processes.

Based on the Group business and risk profile, the three main types of banking risks – credit risk, market risk and operational risk – are considered directly in the Risk-bearing Capacity Calculation. Additionally, all material risks (which are not directly considered in RCC) identified through the Risk Materiality Assessment process are considered via capital buffers into RCC calculated under the stress testing framework.

39. RISK MANAGEMENT (continued)**39.4 GROUP-WIDE RISK AND CAPITAL MANAGEMENT (continued)****39.4.4.6. Risk planning and forecasting**

Planning of risk relevant key numbers is also part of BCR Enterprise Risk Management framework and it assures the adequate reflection of risks within the steering and management process of the Bank. Risk management and forecasting is used by the Bank in strategic decision making. Implementing risk-based financial forecasts that link capital/liquidity adequacy to changes in macroeconomic conditions represents a powerful way to develop an understanding of risk.

The Bank ensures that there is a strong link between the capital planning, budgeting and strategic planning processes.

The Bank responsibility for risk management includes ensuring sound risk planning and forecasting processes. The risk planning and forecasting process includes both a forward- and backward-looking component, focusing on both portfolio and economic environment changes.

39.4.4.7. Risk-weighted asset management

As risk-weighted assets (RWA) determine the actual regulatory capital requirement of the bank and influence the capital ratio as a key performance indicator, particular emphasis is devoted to meet targets and to the planning and forecasting capacity for this parameter. Insights from RWA analyses are used to improve the calculation infrastructure and the quality of input parameters and data as well as the most efficient application of the Basel framework.

39.4.4.8. Risk monitoring

Risks will constantly change and will therefore need to be reviewed in a timely and appropriate manner.

Risks and the progress in implementing recommendations to reduce risks are kept under review and any new practices are evaluated. This enables the Bank to monitor if the actions have had the desired effect of reducing risk, and creating a more stable environment for its activity.

Monitoring and review is a planned part of the risk management process and involves regular checking or surveillance. The results are recorded and reported externally and internally, as appropriate. The results are also an input to the review and continuous improvement of the Bank's risk management framework.

Monitoring and review of risks is required, to evaluate any changes in the risk or control environment. Risk management also requires regular monitoring of risks in light of new developments, providing early warning if risk levels change.

39.4.4.9. Capital planning and capital allocation

Based on material risks identified, the Bank assesses its overall capital adequacy, and develops a strategy for maintaining adequate capital levels consistent with its risk profile and business plans. This is reflected in the Bank's capital planning process and the setting of internal capital targets.

The Bank ensures that a well-defined process is put in place to translate estimates of risk into an assessment of capital adequacy.

Adequate systems and processes for managing risks are in place and implemented effectively, with consideration for providing appropriate capital for any residual risks that cannot be reduced to satisfactory levels.

The capital planning process is dynamic and forward-looking in relation to the Bank's risk profile.

Sound capital planning is critical for determining the prudent amount, type and composition of capital that is consistent with the Bank long-term strategy of being able to pursue business objectives, while also withstanding a stressful event.

An important task integral to the risk planning process is the allocation of capital to entities, business lines and segments. This is done with close co-operation between Risk Management and Controlling. All insight from the ICAAP and controlling processes is used to allocate capital with a view to risk-return considerations.

39. RISK MANAGEMENT (continued)**39.4 GROUP-WIDE RISK AND CAPITAL MANAGEMENT (continued)****39.4.4.10. Recovery plan**

BCR has available a comprehensive Recovery Plan, issued based on the provisions of the Romanian Banking Law (i.e. the Emergency Ordinance no. 99/2006), of Bank Recovery and Resolution Directive 2014/59/EU (BRRD), of EBA guidelines and regulatory technical standards and of the EGB Group Recovery Plan.

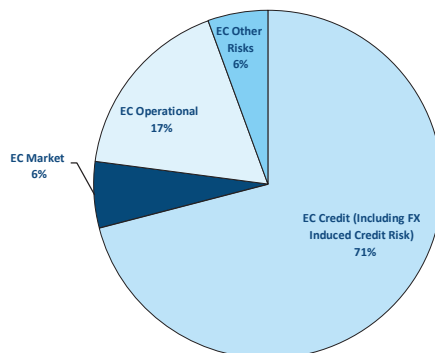
The BCR Recovery Plan sets a governance framework for the drawing up and the implementation of the plan as a main pillar of strengthening the financial resilience of BCR and restoring its financial position following a significant deterioration.

It identifies a set of recovery measures which could be taken in order to restore BCR financial strength and viability when it comes under severe stress.

39.4.5 The Group's aggregate capital requirement by risk type

The following diagrams present the composition of the economic capital requirement according to type of risk as of 31 December 2017:

Economic Capital allocation in % , 31.12.2017- BCR Group



39. RISK MANAGEMENT (continued)

39.5. CREDIT RISK

Definition and overview

Credit risk is the risk of a partial or complete default on contractually agreed payment obligations. Credit risk refers to the negative consequences associated with defaults or the non-fulfilment of concluded contracts in banking operations due to deterioration in the counterparty's credit quality.

The Bank also defines credit risk as the current or prospective risk to earnings and capital arising from a borrower's failure to meet the terms of any contract with the credit institution or its failure to perform as agreed.

Credit risk is inherent in the following forms:

Cash and cash balances – other demand deposits represents all balance receivables on demand with credit institutions (nostro accounts).

Lending facilities represent the full amount of the repayment obligations to the Bank by debtors / borrowers, including loans and receivables to credit institution and to customers.

Irrevocable contingent liabilities represent the potential amount that the Bank has recourse to its client in respect to transactions undertaken but not yet settled, i.e. underwriting, pending settlement date etc.

Irrevocable commitment liabilities represent the potential amount that the Bank has recourse to its client in respect to committed transactions that are subject to future actions of such client.

Financial markets transactions represent the deemed risk amount arising from the non-settlement of transactions and/or the replacement cost of various financial markets contracts based on methodologies and calculation formulae approved by the Bank. Such transactions with individual counterparties may also be accounted for on a "netted"/"cross-collateralized" basis where such arrangements have clear legal precedent or are well established in market practice. This positions includes financial assets held for trading or designated at fair value through profit or loss or available for sale or held to maturity, together with the positive fair value of derivatives without equity instruments.

The Bank grants loans to the corporate customers that can generate appropriate cash-flows, with a good reputation in the business environment, that have a proper credit rating and to the retail customers which have stable incomes and are trustworthy as regards the fulfilment of the contract obligations towards the Bank.

In the loan approval process the Bank is mainly interested in the first credit repayment source, the customer's capacity to generate cash-flows (for corporate customers) and to gain stable incomes (for retail customers).

Credit risk includes subcategories among which:

Default Risk is the risk that issuers and obligors fail to meet contractual obligations; double-default (or wrong-way) risk occurs when collateral is also impaired.

Country risk means the risk of exposure to loss caused by events in a foreign country. This risk category encompasses country, sovereign risks and transfer risks. Sovereign risk is the risk that a central or regional government defaults on its debt or other obligations. Transfer risk is the risk that arises when debtors are unable to meet their obligations owing to an inability to transfer assets to non-residents due to direct sovereign intervention.

Concentration risk which refers to the potential adverse consequences, which may arise from concentrations or interactions between similar risk factors or risk types, such as the risk arising from loans to the same client, to a group of connected clients, to clients from the same geographic region or industry, or to clients who offer the same goods and services, as well as the risk arising from the use of credit risk mitigation techniques and in particular from large indirect credit exposures.

FX Induced Credit Risk is a risk associated with foreign currency lending to unhedged borrowers, which arises due to exchange rate fluctuations of the respective foreign currency.

Internal rating system

Overview

BCR has business and risk strategies in place that govern policies for lending and credit approval processes. These policies are reviewed and adjusted regularly, at minimum on a yearly basis. They cover the entire lending business, taking into account the nature, scope and risk level of the transactions and the counterparties involved. Credit approval considers individual information on the creditworthiness of the customer, the type of credit, collateral, covenant package and other risk mitigation factors involved.

The assessment of counterparty default risk within the Group is based on the customer's probability of default (PD). For each credit exposure and lending decision, the Group assigns an internal rating, which is a unique measure of the counterparty default risk. The internal rating of

39. RISK MANAGEMENT (continued)**39.5. CREDIT RISK (continued)**

each customer is updated at least on an annual basis (annual rating review).

The main purpose of the internal ratings is to support the decision-making for lending and for the terms of credit facilities. Internal ratings also determine the level of decision-making authority within the Group and the monitoring procedures for existing exposures. At a quantitative level, internal ratings influence the level of required risk pricing, risk allowances and risk-weighted assets under Basel 3 Pillar 2.

Internal ratings take into account all available significant information for the assessment of counterparty default risk. For non-retail borrowers, internal ratings take into account the financial strength of the counterparty, the possibility of external support, flexibility in corporate financing, general company information and external credit history information, where available. For retail clients, internal ratings are based mainly on payment behaviour versus the Bank and, where applicable, credit bureau information, supplemented with information provided by the respective client and general demographic information. Rating ceiling rules on credit quality are applied based on membership in a group of economically related entities and the country of main economic activity (applicable to cross-border financing facilities).

All rating models and their components (scorecards), whether retail or non-retail, are regularly validated by the central validation unit based on a Group-wide standard methodology. Validation uses statistical techniques to evaluate the accuracy of default prediction, rating stability, data quality, completeness and relevancy, and reviews the quality of documentation and degree of user acceptance. The results of this validation process are reported to the management and regulatory bodies. In addition to the validation process, BCR applies a regular monitoring process on the performance of rating tools, reflecting developments in new defaults and early delinquencies.

Risk grades and categories

The classification of credit assets into risk grades is based on BCR's internal ratings. BCR uses two internal risk scales for risk classification: for customers that have not defaulted, a risk scale of 8 risk grades (for private individuals) and 13 risk grades (for all other segments) is used. Defaulted customers are classified into a separate risk grade.

For the purpose of external reporting, internal rating grades of BCR are grouped into the following four risk categories:

Low risk: Typically regional customers with well-established and rather long-standing relationships with BCR or large internationally recognized customers. A strong and good financial position and no foreseeable financial difficulties. Retail clients having long relationships with the Bank, or clients with a wide product pool use.

Management attention: Vulnerable non-retail clients that may have overdue payments or defaults in their credit history or may encounter debt repayment difficulties in the medium term. Retail clients with limited savings or payment problems in the past triggering early collection reminders. These clients typically have a good recent payment history.

Substandard: The borrower is vulnerable to negative financial and economic developments. Such loans are managed in specialized risk management departments.

Non-performing: In line with EBA's Technical Standards on forbearance and non-performing exposure, this category includes:

- The non-performing exposure to defaulted customers in the sense of art. 178 of EU Regulation no. 575/2013 including unlikelihood to pay, overdue material amounts with more than 90 days past due, restructuring resulting into a loss to the lender, realization of a loan loss and initiation of Bankruptcy proceedings;
- The non-performing non-defaulted forbore exposures.

An exposure is considered as non-performing forbore, if at the moment of forbearance measures implementation client meets at least one of the conditions mentioned below:

- The account/product is already classified as non-performing exposure;
- The account/product becomes non-performing after the concession implementation.

Non performing forbearance can be allocated as a result of a downgrade from a performing/ performing under probation forbearance status.

If for a performing forbore contract the customer meets any of the default event criteria defined in the Group internal default definition, the account will be classified as non-performing.

If for a performing under probation contract at least one of the below triggers will take place, the account will be classified as non-performing:

- an additional forbearance measure is extended at account level, this being at least the 2nd restructuring measure at client level, in more than 2 years from receiving the last forbearance measure or
- the account has more than 30 day past due during the monitoring period, or

39. RISK MANAGEMENT (continued)**39.5. CREDIT RISK (continued)**

- the customer meets any of the default event criteria defined in the Group internal default definition.

Credit risk review and monitoring

In order to manage the credit risk for large corporates, Banks, sovereigns and country risk, credit limits are established to reflect the maximum exposure that BCR is willing to have towards a particular customer or group of connected clients. All credit limits and the transactions booked within the limits are reviewed at least once a year.

For Corporate clients there is a procedure in place related to Early Warning Signals identification and monitoring, through which it is ensured the detection at early stage of the sensitive exposure through a proactive approach of the clients and maintaining an adequate payment behavior of the Corporate clients. Once adverse developments are identified, an action plan containing corrective measures is initiated.

For smaller enterprises (micro-banking) and PI customers, the portfolio monitoring and management is based on an automated early warning system and MIS (Management Integrated System) Group standards. In retail risk management the following early warning signals indicate potential adverse portfolio developments if left unaddressed:

- deterioration of new business quality,
- decreasing collections efficiency,
- average portfolio rating deterioration,

Credit portfolio reports for asset classes and business lines are prepared on a regular basis. Watch-list meetings are held on a regular basis to monitor customers with a poor credit standing and to discuss pre-emptive measures to help a particular debtor avoid default.

Credit risk exposure

Credit risk exposure relates to the following balance sheet items:

- Cash and cash balances – other demand deposits, including cash at central Banks,
- Financial assets - held for trading (without equity instruments),
- Financial assets - at fair value through profit or loss (without equity instruments),
- Financial assets - available for sale (without equity instruments),
- Financial assets - held to maturity,
- Loans and Receivables,
- Derivatives - hedge accounting, and
- Contingent credit risk liabilities (irrevocable financial guarantees and undrawn irrevocable credit commitments).

The credit risk exposure comprises the gross carrying amount (or nominal value in the case of off balance sheet positions) without taking into account loan loss allowances, provisions for guarantees, any collateral held (including risk transfer to guarantors), netting effects, other credit enhancements or credit risk mitigating transactions.

The gross carrying amount of the credit risk exposure of the Group increased by 6,1% or RON 3,895,683 thousand, from almost RON 64,247,463 thousands as of 31 December 2016 to approximately RON 68,143,146 thousands as of 31 December 2017.

39. RISK MANAGEMENT (continued)
39.5. CREDIT RISK (continued)
Reconciliation between the gross carrying amount and the carrying amount of the separate components of the credit risk exposure

| In RON thousand | Group | | | | | |
|---|-----------------------|--------------------|----------------------|-----------------------|--------------------|----------------------|
| | Gross carrying amount | Allowances | 2017 Carrying amount | Gross carrying amount | Allowances | 2016 Carrying amount |
| Other demand deposits | 679,924 | - | 679,924 | 155,920 | - | 155,920 |
| Loans and advances to credit institutions | 2,221,260 | (6,147) | 2,215,113 | 557,466 | (4,636) | 552,830 |
| Loans and advances to customers | 36,218,507 | (2,727,624) | 33,490,883 | 35,884,582 | (3,593,448) | 32,291,134 |
| Held to maturity | 14,760,506 | (3,612) | 14,756,894 | 13,907,661 | (3,460) | 13,904,201 |
| Trading assets | 63,245 | - | 63,245 | 559,176 | - | 559,176 |
| At fair value through profit or loss | 15,131 | - | 15,131 | 15,319 | - | 15,319 |
| Available for sale | 6,357,528 | - | 6,357,528 | 5,376,652 | - | 5,376,652 |
| Positive fair value of derivative financial instruments | 41,449 | - | 41,449 | 73,486 | - | 73,486 |
| Contingent credit liabilities | 7,785,596 | (351,257) | - | 7,717,203 | (225,341) | - |
| Total | 68,143,146 | (3,088,640) | 57,620,166 | 64,247,463 | (3,826,885) | 52,928,717 |

The gross carrying amount of the credit risk exposure of the Bank increased by 6.9% or RON 4,176,927 thousand, from almost RON 60,669,481 thousands as of 31 December 2016 to approximately RON 64,846,409 thousands as of 31 December 2017.

Reconciliation between the gross carrying amount and the carrying amount of the separate components of the credit risk exposure

| In RON thousand | Bank | | | | | |
|---|-----------------------|--------------------|----------------------|-----------------------|--------------------|----------------------|
| | Gross carrying amount | Allowances | 2017 Carrying amount | Gross carrying amount | Allowances | 2016 Carrying amount |
| Other demand deposits | 655,489 | - | 655,489 | 79,970 | - | 79,970 |
| Loans and advances to credit institutions | 2,426,183 | (6,148) | 2,420,035 | 656,050 | (4,636) | 651,414 |
| Loans and advances to customers | 34,584,122 | (2,563,817) | 32,020,306 | 34,539,486 | (3,376,977) | 31,162,509 |
| Held to maturity | 13,379,340 | (3,612) | 13,375,729 | 12,389,657 | (3,460) | 12,386,197 |
| Trading assets | 63,245 | - | 63,245 | 559,176 | - | 559,176 |
| At fair value through profit or loss | 15,131 | - | 15,131 | 15,319 | - | 15,319 |
| Available for sale | 5,904,802 | - | 5,904,802 | 4,648,089 | - | 4,648,089 |
| Positive fair value of derivative financial instruments | 41,449 | - | 41,449 | 73,486 | - | 73,486 |
| Contingent credit liabilities | 7,776,646 | (351,158) | - | 7,708,249 | (225,314) | - |
| Total | 64,846,409 | (2,924,734) | 54,496,186 | 60,669,481 | (3,610,386) | 49,576,159 |

The gross carrying amount of contingent liabilities refers to the nominal value, while credit risk provisions refer to provisions for guarantees. A carrying amount is not presented in the case of contingent liabilities.

Breakdown of credit risk exposure

On the next pages the credit risk volume is categorized in the following way:

- Breakdown by exposure class and financial instruments;
- industry and financial instrument;
- risk category;
- industry and risk category;
- region and risk category;
- business segment and risk category;
- geographical segment and risk category;
- contingent liabilities by product;
- non-performing credit risk exposure by business segment and credit risk provisions;
- non-performing credit risk exposure by geographical segment and credit risk provisions;

39. RISK MANAGEMENT (continued)
39.5. CREDIT RISK (continued)

- composition of allowances;
- credit risk exposure, forbearance exposure, and credit risk provisions;
- types of forbearance exposure, the development of forbearance exposure, and credit risk provisions;
- credit risk exposure by business segment and collateral;
- credit risk exposure by geographical segment and collateral;
- credit risk exposure by financial instrument and collateral;
- credit risk exposure past due and not covered by specific allowances by financial instruments and collateralization.

Credit risk breakdown by exposure class and financial instruments

The assignment of obligors to exposure classes is based on legal regulations. Additionally to central governments, central banks, international organizations, and multinational development banks, the aggregated exposure class 'sovereigns' contains regional and local governments as well as public sector entities. Institutions include banks, recognized investment firms and unrecognized multilateral development banks.

In RON thousand, as of 31 Dec 2017

| | Other demand deposits | Loans and advances to credit institutions | Loans and advances to customers | Debt instruments | | | | Positive fair value of derivative financial instruments | Contingent credit liabilities | Credit risk exposure |
|------------------------------------|-----------------------|---|---------------------------------|-------------------|----------------|--------------------------------------|--------------------|---|-------------------------------|----------------------|
| | | | | Held to maturity | Trading assets | At fair value through profit or loss | Available for sale | | | |
| Sovereign | - | 213 | 3,217,071 | 14,760,506 | 63,245 | 15,131 | 6,357,528 | - | 308,774 | 24,722,468 |
| Institutions | 679,924 | 2,201,224 | 82,157 | - | - | - | - | 24,581 | 443,345 | 3,431,230 |
| Corporates | - | 19,823 | 11,969,320 | - | 0 | - | - | 16,868 | 5,920,685 | 17,926,697 |
| Retail | - | - | 20,949,958 | - | - | - | - | - | 1,112,792 | 22,062,750 |
| Total Gross Carrying Amount | 679,924 | 2,221,260 | 36,218,507 | 14,760,506 | 63,245 | 15,131 | 6,357,528 | 41,449 | 7,785,596 | 68,143,146 |
| Credit Loss Allowances | - | (6,147) | (2,727,624) | (3,612) | - | - | - | - | (351,257) | (3,088,640) |
| Carrying Amount | 679,924 | 2,215,113 | 33,490,883 | 14,756,894 | 63,245 | 15,131 | 6,357,528 | 41,449 | 7,434,340 | 65,054,506 |

In RON thousand, as of 31 Dec 2016

| | Other demand deposits | Loans and advances to credit institutions | Loans and advances to customers | Debt instruments | | | | Positive fair value of derivative financial instruments | Contingent credit liabilities | Credit risk exposure |
|------------------------------------|-----------------------|---|---------------------------------|-------------------|----------------|--------------------------------------|--------------------|---|-------------------------------|----------------------|
| | | | | Held to maturity | Trading assets | At fair value through profit or loss | Available for sale | | | |
| Sovereign | - | 227 | 3,872,507 | 13,907,661 | 559,176 | 15,319 | 5,376,652 | - | 399,048 | 24,130,589 |
| Institutions | 155,920 | 541,930 | 8,617 | - | - | - | - | 47,270 | 15,428 | 769,165 |
| Corporates | - | 15,309 | 11,817,559 | - | - | - | - | 26,215 | 6,217,673 | 18,076,757 |
| Retail | - | - | 20,185,899 | - | - | - | - | 0 | 1,085,054 | 21,270,953 |
| Total Gross Carrying Amount | 155,920 | 557,466 | 35,884,582 | 13,907,661 | 559,176 | 15,319 | 5,376,652 | 73,486 | 7,717,203 | 64,247,463 |
| Credit Loss Allowances | - | (4,636) | (3,593,448) | (3,460) | - | - | - | - | (225,341) | (3,826,885) |
| Carrying Amount | 155,920 | 552,830 | 32,291,134 | 13,904,201 | 559,176 | 15,319 | 5,376,652 | 73,486 | 7,491,861 | 60,420,578 |

In RON thousand, as of 31 Dec 2017

| | Other demand deposits | Loans and advances to credit institutions | Loans and advances to customers | Debt instruments | | | | Positive fair value of derivative financial instruments | Contingent credit liabilities | Credit risk exposure |
|------------------------------------|-----------------------|---|---------------------------------|-------------------|----------------|--------------------------------------|--------------------|---|-------------------------------|----------------------|
| | | | | Held to maturity | Trading assets | At fair value through profit or loss | Available for sale | | | |
| Sovereign | - | 213 | 3,216,982 | 13,379,340 | 63,245 | 15,131 | 5,904,802 | - | 308,774 | 22,888,488 |
| Institutions | 655,489 | 2,406,147 | 82,157 | - | - | - | - | 24,581 | 452,354 | 3,620,729 |
| Corporates | - | 19,823 | 11,273,470 | - | 0 | - | - | 16,868 | 5,920,693 | 17,230,854 |
| Retail | - | - | 20,011,513 | - | - | - | - | - | 1,094,825 | 21,106,338 |
| Total Gross Carrying Amount | 655,489 | 2,426,183 | 34,584,122 | 13,379,340 | 63,245 | 15,131 | 5,904,802 | 41,449 | 7,776,646 | 64,846,409 |
| Credit Loss Allowances | - | (6,148) | (2,563,817) | (3,612) | - | - | - | - | (351,158) | (2,924,734) |
| Carrying Amount | 655,489 | 2,420,035 | 32,020,306 | 13,375,729 | 63,245 | 15,131 | 5,904,802 | 41,449 | 7,425,488 | 61,921,674 |

NOTES TO THE FINANCIAL STATEMENTS

Consolidated and Separate for the year ended 31 December 2017

39. RISK MANAGEMENT (continued)

39.5. CREDIT RISK (continued)

In RON thousand, as of 31 Dec 2016

| | Other demand deposits | Loans and advances to credit institutions | Loans and advances to customers | Debt instruments | | | | Positive fair value of derivative financial instruments | Bank | |
|------------------------------------|-----------------------|---|---------------------------------|-------------------|----------------|--------------------------------------|--------------------|---|-------------------------------|----------------------|
| | | | | Held to maturity | Trading assets | At fair value through profit or loss | Available for sale | | Contingent credit liabilities | Credit risk exposure |
| Sovereign | - | 227 | 3,873,387 | 12,389,657 | 559,176 | 15,319 | 4,648,089 | - | 399,048 | 21,884,903 |
| Institutions | 79,970 | 640,514 | 8,617 | - | - | - | - | 47,270 | 40,497 | 816,868 |
| Corporates | - | 15,309 | 11,347,624 | - | - | - | - | 26,215 | 6,192,982 | 17,582,130 |
| Retail | - | - | 19,309,858 | - | - | - | - | 0 | 1,075,722 | 20,385,580 |
| Total Gross Carrying Amount | 79,970 | 656,050 | 34,539,486 | 12,389,657 | 559,176 | 15,319 | 4,648,089 | 73,486 | 7,708,249 | 60,669,481 |
| Credit Loss Allowances | - | (4,636) | (3,376,977) | (3,460) | - | - | - | - | (225,314) | (3,610,386) |
| Carrying Amount | 79,970 | 651,414 | 31,162,509 | 12,386,197 | 559,176 | 15,319 | 4,648,089 | 73,486 | 7,482,935 | 57,059,095 |

Contingent liabilities by product

| In RON thousand | Group | | Bank | |
|-------------------------------|------------------|------------------|------------------|------------------|
| | December 2017 | December 2016 | December 2017 | December 2016 |
| Financial guarantees | 3,014,797 | 2,745,106 | 3,045,642 | 2,767,239 |
| Credit default swaps | - | - | - | - |
| Irrevocable commitments | 4,770,800 | 4,972,097 | 4,731,003 | 4,941,010 |
| Total nominal amount | 7,785,596 | 7,717,203 | 7,776,646 | 7,708,249 |
| Credit Loss Allowances | (351,257) | (225,341) | (351,158) | (225,314) |
| Net book value | 7,434,340 | 7,491,861 | 7,425,488 | 7,482,935 |

39. RISK MANAGEMENT (continued)

39.5. CREDIT RISK (continued)

Credit risk exposure by industry and financial instrument

In RON thousand, as of 31 Dec 2017

| | Other demand deposits | Loans and advances to credit institutions | Loans and advances to customers | Debt instruments | | | Positive fair value of derivative financial instruments | Contingent credit liabilities | Credit risk exposure |
|---|-----------------------|---|---------------------------------|-------------------|----------------|--------------------------------------|---|-------------------------------|----------------------|
| | | | | Held to maturity | Trading assets | At fair value through profit or loss | | | |
| Agriculture, forestry and fishing | - | - | 637,811 | - | - | - | 12 | 108,239 | 746,062 |
| Mining and quarrying | - | - | 244,706 | - | - | - | - | 1,330,310 | 1,575,016 |
| Manufacturing | - | - | 4,385,604 | - | - | - | 5,334 | 819,058 | 5,209,996 |
| Electricity, gas, steam and air conditioning supply | - | - | 675,065 | - | - | - | 1,476 | 228,086 | 904,626 |
| Water supply | - | - | 264,802 | - | - | - | - | 10,838 | 275,640 |
| Construction | - | - | 1,343,971 | - | - | - | 1,030 | 1,239,087 | 2,584,087 |
| Construction: Building project development | - | - | 525,318 | - | - | - | 1,011 | 42,298 | 568,627 |
| Wholesale and retail trade | - | - | 1,951,653 | - | - | - | 902 | 1,834,984 | 3,787,539 |
| Transport and storage | - | - | 1,307,967 | - | - | - | 2,204 | 43,202 | 1,353,373 |
| Accommodation and food service activities | - | - | 65,893 | - | - | - | - | 1,996 | 67,889 |
| Information and communication | - | - | 258,987 | - | - | - | 64 | 15,948 | 275,000 |
| Financial and insurance services | 679,924 | 2,221,260 | 426,139 | - | - | - | 24,641 | 459,564 | 3,811,528 |
| Financial and insurance services: Holding companies | - | - | 159,025 | - | - | - | - | 23,532 | 182,557 |
| Real estate activities | - | - | 840,960 | - | - | - | 5,769 | 2,320 | 849,049 |
| Professional, scientific and technical activities | - | - | 175,574 | - | - | - | - | 95,667 | 271,241 |
| Administrative and support service activities | - | - | 177,663 | - | - | - | - | 6,208 | 183,872 |
| Public administration and defence, compulsory social security | - | - | 3,231,138 | 14,760,506 | 63,245 | 15,131 | - | 352,722 | 24,780,271 |
| Education | - | - | 3,644 | - | - | - | - | 9,423 | 13,067 |
| Human health services and social work activities | - | - | 144,698 | - | - | - | - | 23,476 | 168,175 |
| Arts, entertainment and recreation | - | - | 4,176 | - | - | - | - | 2,710 | 6,886 |
| Other services | - | - | 54,561 | - | - | - | 17 | 7,757 | 62,335 |
| Private households | - | - | 20,023,484 | - | 0 | - | - | 1,194,001 | 21,217,484 |
| Others | - | - | 11 | - | - | - | - | - | 11 |
| Total Gross Carrying Amount | 679,924 | 2,221,260 | 36,218,507 | 14,760,506 | 63,245 | 15,131 | 41,449 | 7,785,596 | 68,143,146 |
| Credit Loss Allowances | - | (6,147) | (2,727,624) | (3,612) | - | - | - | (351,257) | (3,088,640) |
| Carrying Amount | 679,924 | 2,215,113 | 33,490,883 | 14,756,894 | 63,245 | 15,131 | 41,449 | 7,434,340 | 65,054,506 |

39. RISK MANAGEMENT (continued)

39.5. CREDIT RISK (continued)

| In RON thousand, as of 31 Dec 2016 | Debt instruments | | | | | | Positive fair value of derivative financial instruments | | Contingent credit liabilities | Credit risk exposure |
|---|-----------------------|---|---------------------------------|-------------------|----------------|--------------------------------------|---|---------------|-------------------------------|----------------------|
| | Other demand deposits | Loans and advances to credit institutions | Loans and advances to customers | Held to maturity | Trading assets | At fair value through profit or loss | Available for sale | | | |
| Agriculture, forestry and fishing | - | - | 587,281 | - | - | - | - | 162 | 67,555 | 654,998 |
| Mining and quarrying | - | - | 312,441 | - | - | - | - | - | 1,275,934 | 1,588,375 |
| Manufacturing | - | - | 4,049,915 | - | - | - | - | 5,864 | 602,368 | 4,658,147 |
| Electricity, gas, steam and air conditioning supply | - | - | 738,461 | - | - | - | - | 2,157 | 46,565 | 787,183 |
| Water supply | - | - | 232,205 | - | - | - | - | - | 14,062 | 246,267 |
| Construction | - | - | 1,536,611 | - | - | - | - | 3,819 | 1,596,862 | 3,137,292 |
| Construction: Building project development | - | - | 688,632 | - | - | - | - | 3,805 | 172,924 | 865,361 |
| Wholesale and retail trade | - | - | 2,043,955 | - | - | - | - | 710 | 1,873,616 | 3,918,281 |
| Transport and storage | - | - | 1,063,188 | - | - | - | - | 3,214 | 113,846 | 1,180,247 |
| Accommodation and food service activities | - | - | 99,026 | - | - | - | - | - | 977 | 100,003 |
| Information and communication | - | - | 287,646 | - | - | - | - | 761 | 27,620 | 316,027 |
| Financial and insurance services | 155,920 | 557,466 | 497,626 | - | - | - | - | 47,270 | 71,284 | 1,329,566 |
| Financial and insurance services: Holding companies | - | - | 182,947 | - | - | - | - | - | 50,407 | 233,354 |
| Real estate activities | - | - | 785,347 | - | - | - | - | 7,288 | 14,451 | 807,086 |
| Professional, scientific and technical activities | - | - | 189,389 | - | - | - | - | 1,933 | 79,999 | 271,320 |
| Administrative and support service activities | - | - | 116,574 | - | - | - | - | - | 4,202 | 120,776 |
| Public administration and defence, compulsory social security | - | - | 3,922,794 | 13,907,661 | 559,176 | 15,319 | 5,376,652 | - | 459,339 | 24,240,939 |
| Education | - | - | 3,155 | - | - | - | - | - | 9,690 | 12,845 |
| Human health services and social work activities | - | - | 114,248 | - | - | - | - | 306 | 19,843 | 134,397 |
| Arts, entertainment and recreation | - | - | 3,350 | - | - | - | - | - | 2,595 | 5,945 |
| Other services | - | - | 43,175 | - | - | - | - | 2 | 10,968 | 54,144 |
| Private households | - | - | 19,258,182 | - | - | - | - | 0 | 1,425,376 | 20,683,559 |
| Others | - | - | 12 | - | - | - | - | - | 52 | 64 |
| Total Gross Carrying Amount | 155,920 | 557,466 | 35,884,582 | 13,907,661 | 559,176 | 15,319 | 5,376,652 | 73,486 | 7,717,203 | 64,247,463 |
| Credit Loss Allowances | - | (4,636) | (3,593,448) | (3,460) | - | - | - | - | (225,341) | (3,826,885) |
| Carrying Amount | 155,920 | 552,830 | 32,291,134 | 13,904,201 | 559,176 | 15,319 | 5,376,652 | 73,486 | 7,491,861 | 60,420,578 |

39. RISK MANAGEMENT (continued)

39.5. CREDIT RISK (continued)

In RON thousand, as of 31 Dec 2017

| | Other demand deposits | Loans and advances to credit institutions | Loans and advances to customers | Held to maturity | Debt instruments | | | Positive fair value of derivative financial instruments | Contingent credit liabilities | Credit risk exposure |
|---|-----------------------|---|---------------------------------|-------------------|------------------|--------------------------------------|--------------------|---|-------------------------------|----------------------|
| | | | | | Trading assets | At fair value through profit or loss | Available for sale | | | |
| Agriculture, forestry and fishing | - | - | 485,497 | - | - | - | 12 | 94,974 | 580,483 | |
| Mining and quarrying | - | - | 222,166 | - | - | - | - | 1,330,310 | 1,552,476 | |
| Manufacturing | - | - | 4,186,050 | - | - | - | 5,334 | 809,224 | 5,000,608 | |
| Electricity, gas, steam and air conditioning supply | - | - | 674,090 | - | - | - | 1,476 | 228,086 | 903,651 | |
| Water supply | - | - | 229,575 | - | - | - | - | 10,838 | 240,413 | |
| Construction | - | - | 1,231,816 | - | - | - | 1,030 | 1,236,833 | 2,469,679 | |
| Construction: Building project development | - | - | 525,318 | - | - | - | 1,011 | 42,298 | 568,627 | |
| Wholesale and retail trade | - | - | 1,593,971 | - | - | - | 902 | 1,818,331 | 3,413,204 | |
| Transport and storage | - | - | 769,464 | - | - | - | 2,204 | 44,589 | 816,256 | |
| Accommodation and food service activities | - | - | 42,645 | - | - | - | - | 1,275 | 43,921 | |
| Information and communication | - | - | 225,168 | - | - | - | 64 | 36,051 | 261,284 | |
| Financial and insurance services | 655,489 | 2,426,183 | 678,193 | - | - | - | 24,641 | 472,671 | 4,257,177 | |
| Financial and insurance services: Holding companies | - | - | 159,025 | - | - | - | - | 23,532 | 182,557 | |
| Real estate activities | - | - | 818,784 | - | - | - | 5,769 | 2,320 | 826,873 | |
| Professional, scientific and technical activities | - | - | 132,608 | - | - | - | - | 96,766 | 229,374 | |
| Administrative and support service activities | - | - | 149,328 | - | - | - | - | 7,385 | 156,712 | |
| Public administration and defence, compulsory social security | - | - | 3,230,859 | 13,379,340 | 63,245 | 15,131 | - | 352,722 | 22,946,100 | |
| Education | - | - | 2,299 | - | - | - | - | 9,423 | 11,723 | |
| Human health services and social work activities | - | - | 134,834 | - | - | - | - | 23,474 | 158,308 | |
| Arts, entertainment and recreation | - | - | 998 | - | - | - | - | 2,710 | 3,708 | |
| Other services | - | - | 39,205 | - | - | - | 17 | 7,757 | 46,980 | |
| Private households | - | - | 19,736,562 | - | 0 | - | - | 1,190,905 | 20,927,467 | |
| Others | - | - | 11 | - | - | - | - | - | 11 | |
| Total Gross Carrying Amount | 655,489 | 2,426,183 | 34,584,122 | 13,379,340 | 63,245 | 15,131 | 41,449 | 7,776,646 | 64,846,409 | |
| Credit Loss Allowances | - | (6,148) | (2,563,817) | (3,612) | - | - | - | (351,158) | (2,924,734) | |
| Carrying Amount | 655,489 | 2,420,035 | 32,020,306 | 13,375,729 | 63,245 | 15,131 | 41,449 | 7,425,488 | 61,921,674 | |

39. RISK MANAGEMENT (continued)

39.5. CREDIT RISK (continued)

| | In RON thousand, as of 31 Dec 2016 | | | | | | | Bank | | |
|---|------------------------------------|---|---------------------------------|-------------------|----------------|--------------------------------------|--------------------|---------------|---|-------------------------------|
| | Other demand deposits | Loans and advances to credit institutions | Loans and advances to customers | Held to maturity | Trading assets | At fair value through profit or loss | Available for sale | | Positive fair value of derivative financial instruments | Contingent credit liabilities |
| Agriculture, forestry and fishing | - | - | 453,315 | - | - | - | - | 162 | 57,141 | 510,618 |
| Mining and quarrying | - | - | 306,464 | - | - | - | - | - | 1,275,849 | 1,582,313 |
| Manufacturing | - | - | 3,892,196 | - | - | - | - | 5,864 | 591,091 | 4,489,151 |
| Electricity, gas, steam and air conditioning supply | - | - | 737,020 | - | - | - | - | 2,157 | 46,565 | 785,741 |
| Water supply | - | - | 199,625 | - | - | - | - | - | 14,062 | 213,686 |
| Construction | - | - | 1,421,665 | - | - | - | - | 3,819 | 1,594,573 | 3,020,057 |
| Construction: Building project development | - | - | 688,632 | - | - | - | - | 3,805 | 172,924 | 865,361 |
| Wholesale and retail trade | - | - | 1,766,135 | - | - | - | - | 710 | 1,841,808 | 3,608,653 |
| Transport and storage | - | - | 602,711 | - | - | - | - | 3,214 | 116,486 | 722,411 |
| Accommodation and food service activities | - | - | 62,542 | - | - | - | - | - | 977 | 63,519 |
| Information and communication | - | - | 255,316 | - | - | - | - | 761 | 47,508 | 303,584 |
| Financial and insurance services | 79,970 | 656,050 | 812,616 | - | - | - | - | 47,270 | 96,323 | 1,692,229 |
| Financial and insurance services: Holding companies | - | - | 182,947 | - | - | - | - | - | 50,407 | 233,354 |
| Real estate activities | - | - | 793,910 | - | - | - | - | 7,288 | 14,030 | 815,228 |
| Professional, scientific and technical activities | - | - | 152,813 | - | - | - | - | 1,933 | 81,258 | 236,004 |
| Administrative and support service activities | - | - | 86,576 | - | - | - | - | - | 5,344 | 91,919 |
| Public administration and defence, compulsory social security | - | - | 3,923,451 | 12,389,657 | 559,176 | 15,319 | 4,648,089 | - | 459,339 | 21,995,030 |
| Education | - | - | 1,947 | - | - | - | - | - | 9,690 | 11,637 |
| Human health services and social work activities | - | - | 102,894 | - | - | - | - | 306 | 19,843 | 123,043 |
| Arts, entertainment and recreation | - | - | 498 | - | - | - | - | - | 2,595 | 3,093 |
| Other services | - | - | 38,996 | - | - | - | - | 2 | 10,968 | 49,966 |
| Private households | - | - | 18,928,783 | - | - | - | - | 0 | 1,422,802 | 20,351,585 |
| Others | - | - | 12 | - | - | - | - | - | - | 12 |
| Total Gross Carrying Amount | 79,970 | 656,050 | 34,539,486 | 12,389,657 | 559,176 | 15,319 | 4,648,089 | 73,486 | 7,708,249 | 60,669,481 |
| Credit Loss Allowances | - | (4,636) | (3,376,977) | (3,460) | - | - | - | - | (225,314) | (3,610,386) |
| Carrying Amount | 79,970 | 651,414 | 31,162,509 | 12,386,197 | 559,176 | 15,319 | 4,648,089 | 73,486 | 7,482,935 | 57,059,095 |

39. RISK MANAGEMENT (continued)
39.5. CREDIT RISK (continued)
Credit risk exposure by risk category

| In RON thousand | | | | | | Group | |
|--|------------|----------------------|-------------|----------------|---|------------------------|-----------------|
| | Low risk | Management attention | Substandard | Non-performing | Total credit risk exposure Gross carrying amount | Credit Loss Allowances | Carrying Amount |
| Credit risk exposure December 2017 | 55,724,852 | 8,170,379 | 849,954 | 3,397,961 | 68,143,146 | (3,088,640) | 65,054,506 |
| Share of credit risk exposure | 81.8% | 12.0% | 1.2% | 5.0% | 100.0% | | |
| Credit risk exposure December 2016 | 50,505,221 | 8,794,209 | 365,745 | 4,582,289 | 64,247,463 | (3,826,885) | 60,420,578 |
| Share of credit risk exposure | 78.6% | 13.7% | 0.6% | 7.1% | 100.0% | | |
| Change in credit risk exposure in 2017 | 5,219,632 | (623,830) | 484,209 | (1,184,328) | 3,895,683 | | |
| Change | 10.3% | -7.1% | 132.4% | -25.8% | 6.1% | | |

| In RON thousand | | | | | | Bank | |
|--|------------|----------------------|-------------|----------------|----------------------------|------------------------|-----------------|
| | Low risk | Management attention | Substandard | Non-performing | Total credit risk exposure | Credit Loss Allowances | Carrying Amount |
| Credit risk exposure December 2017 | 53,281,593 | 7,528,820 | 839,869 | 3,196,127 | 64,846,409 | (2,924,734) | 61,921,674 |
| Share of credit risk exposure | 82.2% | 11.6% | 1.3% | 4.9% | 100.0% | | |
| Credit risk exposure December 2016 | 47,276,501 | 8,763,311 | 336,872 | 4,292,797 | 60,669,481 | (3,610,386) | 57,059,095 |
| Share of credit risk exposure | 77.9% | 14.4% | 0.6% | 7.1% | 100.0% | | |
| Change in credit risk exposure in 2017 | 6,005,092 | (1,234,491) | 502,997 | (1,096,670) | 4,176,927 | | |
| Change | 12.7% | -14.1% | 149.3% | -25.5% | 6.9% | | |

From 31 December 2016 to 31 December 2017, the share of credit risk exposure in the low risk category increased, while non-performing exposure dropped significantly with 25.8% in case of BCR Group, respectively with 25.5% in case of BCR Bank in 2017 as compared with 2016, from RON 4,582,289 thousands in 2016 to RON 3,397,961 thousands in 2017 in case of BCR Group and from RON 4,292,797 thousands in 2016 to RON 3,196,127 thousands in 2017 in case of BCR Bank. The decrease in the weakest risk category is due to the implementation of the write-offs and sales performed in 2017.

| In RON thousand | | | | | | Group | |
|--|----------|----------------------|-------------|----------------|----------------------------|-------|--|
| | Low risk | Management attention | Substandard | Non-performing | Total credit risk exposure | | |
| Other demand deposits December 2017 | 678,308 | 3 | 1,613 | - | 679,924 | | |
| Share of Other demand deposits December 2017 | 99.8% | 0.0% | 0.2% | 0.0% | 100.0% | | |
| Other demand deposits December 2016 | 134,622 | 20,001 | 1,296 | - | 155,920 | | |
| Share of Other demand deposits December 2016 | 86.3% | 12.8% | 0.8% | 0.0% | 100.0% | | |
| Change in credit risk exposure in 2017 | 543,685 | (19,998) | 317 | - | 524,004 | | |
| Change | 403.9% | -100.0% | 24.4% | 0.0% | 336.1% | | |

39. RISK MANAGEMENT (continued)
39.5. CREDIT RISK (continued)

| | In RON thousand | | | | Bank |
|--|-----------------|----------------------|-------------|----------------|----------------------------|
| | Low risk | Management attention | Substandard | Non-performing | Total credit risk exposure |
| Other demand deposits December 2017 | 655,100 | - | - | - | 655,100 |
| Share of Other demand deposits December 2017 | 100.0% | 0.0% | 0.0% | 0.0% | 100.0% |
| Other demand deposits December 2016 | 59,352 | 20,001 | - | - | 79,353 |
| Share of Other demand deposits December 2016 | 74.8% | 25.2% | 0.0% | 0.0% | 100.0% |
| Change in credit risk exposure in 2017 | 595,748 | (20,001) | - | - | 575,747 |
| Change | 1003.7% | -100.0% | 0.0% | 0.0% | 725.6% |

Credit risk exposure by industry and risk category

| | In RON thousand, as of 31 Dec 2017 | | | | Group |
|---|------------------------------------|----------------------|----------------|------------------|----------------------------|
| | Low risk | Management attention | Substandard | Non-performing | Total credit risk exposure |
| Agriculture, forestry and fishing | 478,008 | 185,700 | 40,580 | 41,774 | 746,062 |
| Mining and quarrying | 1,316,161 | 4,342 | 1 | 254,513 | 1,575,016 |
| Manufacturing | 2,969,012 | 1,512,555 | 111,493 | 616,937 | 5,209,996 |
| Electricity, gas, steam and air conditioning supply | 714,263 | 58,907 | 17,278 | 114,178 | 904,626 |
| Water supply | 171,997 | 77,398 | 324 | 25,921 | 275,640 |
| Construction | 1,155,220 | 383,009 | 448,550 | 597,308 | 2,584,087 |
| Construction: Building project development | 491,031 | 8,231 | 6 | 69,360 | 568,627 |
| Wholesale and retail trade | 2,673,900 | 941,349 | 13,561 | 158,730 | 3,787,539 |
| Transport and storage | 956,360 | 337,617 | 3,751 | 55,644 | 1,353,373 |
| Accommodation and food service activities | 44,857 | 8,038 | 430 | 14,564 | 67,889 |
| Information and communication | 164,141 | 78,134 | 3,506 | 29,219 | 275,000 |
| Financial and insurance services | 3,682,221 | 89,685 | 1,621 | 38,000 | 3,811,528 |
| Financial and insurance services: Holding companies | 182,522 | 35 | - | - | 182,557 |
| Real estate activities | 705,471 | 34,960 | 9,633 | 98,986 | 849,049 |
| Professional, scientific and technical activities | 164,667 | 22,367 | 69,760 | 14,447 | 271,241 |
| Administrative and support service activities | 140,304 | 36,977 | 2,658 | 3,933 | 183,872 |
| Public administration and defence, compulsory social security | 24,439,625 | 300,255 | 4 | 40,386 | 24,780,271 |
| Education | 12,241 | 528 | 266 | 32 | 13,067 |
| Human health services and social work activities | 14,579 | 151,430 | 819 | 1,347 | 168,175 |
| Arts, entertainment and recreation | 3,467 | 2,161 | 1,214 | 44 | 6,886 |
| Other services | 54,646 | 3,786 | 985 | 2,919 | 62,335 |
| Private households | 15,863,712 | 3,941,172 | 123,522 | 1,289,079 | 21,217,484 |
| Others | - | 11 | - | - | 11 |
| Total | 55,724,852 | 8,170,379 | 849,954 | 3,397,961 | 68,143,146 |

| | In RON thousand, as of 31 Dec 2016 | | | | Group |
|---|------------------------------------|----------------------|-------------|----------------|----------------------------|
| | Low risk | Management attention | Substandard | Non-performing | Total credit risk exposure |
| Agriculture, forestry and fishing | 308,768 | 267,403 | 3,410 | 75,417 | 654,998 |
| Mining and quarrying | 1,232,868 | 87,453 | 0 | 268,054 | 1,588,375 |
| Manufacturing | 2,037,853 | 1,325,026 | 143,937 | 1,151,331 | 4,658,147 |
| Electricity, gas, steam and air conditioning supply | 378,462 | 316,158 | 11,978 | 80,584 | 787,183 |
| Water supply | 175,261 | 37,246 | 17 | 33,743 | 246,267 |

39. RISK MANAGEMENT (continued)
39.5. CREDIT RISK (continued)

| | | | | | |
|---|-------------------|------------------|----------------|------------------|-------------------|
| Construction | 1,668,052 | 943,253 | 3,193 | 522,794 | 3,137,292 |
| Construction: Building project development | 744,574 | 15,771 | 1 | 105,016 | 865,361 |
| Wholesale and retail trade | 2,765,118 | 720,413 | 8,615 | 424,135 | 3,918,281 |
| Transport and storage | 946,071 | 158,934 | 1,151 | 74,090 | 1,180,247 |
| Accommodation and food service activities | 42,338 | 5,377 | 17,613 | 34,675 | 100,003 |
| Information and communication | 228,263 | 40,143 | 3,660 | 43,961 | 316,027 |
| Financial and insurance services | 1,183,524 | 80,617 | 2,680 | 44,688 | 1,311,510 |
| Financial and insurance services: Holding companies | 233,320 | 0 | - | 34 | 233,354 |
| Real estate activities | 570,118 | 94,959 | 15,165 | 144,901 | 825,143 |
| Professional, scientific and technical activities | 126,952 | 112,429 | 2,207 | 29,732 | 271,320 |
| Administrative and support service activities | 88,124 | 28,559 | 323 | 3,769 | 120,776 |
| Public administration and defence, compulsory social security | 23,912,637 | 239,667 | 19,481 | 69,155 | 24,240,939 |
| Education | 12,012 | 98 | 445 | 290 | 12,845 |
| Human health services and social work activities | 9,644 | 111,711 | 941 | 12,101 | 134,397 |
| Arts, entertainment and recreation | 3,071 | 2,469 | 180 | 226 | 5,945 |
| Other services | 45,213 | 4,029 | 1,126 | 3,776 | 54,144 |
| Private households | 14,770,820 | 4,218,262 | 129,622 | 1,564,854 | 20,683,559 |
| Others | 52 | 0 | - | 12 | 64 |
| Total | 50,505,221 | 8,794,209 | 365,745 | 4,582,289 | 64,247,463 |

In RON thousand, as of 31 Dec 2017
Bank

| | Low risk | Management attention | Substandard | Non-performing | Total credit risk exposure |
|---|-------------------|----------------------|----------------|------------------|----------------------------|
| Agriculture, forestry and fishing | 398,233 | 107,033 | 36,111 | 39,106 | 580,483 |
| Mining and quarrying | 1,297,421 | 595 | 1 | 254,460 | 1,552,476 |
| Manufacturing | 2,889,895 | 1,402,861 | 106,745 | 601,106 | 5,000,608 |
| Electricity, gas, steam and air conditioning supply | 713,745 | 58,839 | 17,278 | 113,789 | 903,651 |
| Water supply | 153,448 | 74,548 | 318 | 12,099 | 240,413 |
| Construction | 1,080,395 | 356,498 | 443,040 | 589,746 | 2,469,679 |
| Construction: Building project development | 491,031 | 8,231 | 6 | 69,360 | 568,627 |
| Wholesale and retail trade | 2,489,991 | 770,304 | 11,586 | 141,323 | 3,413,204 |
| Transport and storage | 635,280 | 143,288 | 756 | 36,933 | 816,256 |
| Accommodation and food service activities | 29,717 | 2,876 | 245 | 11,083 | 43,921 |
| Information and communication | 133,454 | 76,619 | 22,071 | 29,140 | 261,284 |
| Financial and insurance services | 4,077,831 | 141,337 | 8 | 38,000 | 4,257,177 |
| Financial and insurance services: Holding companies | 182,522 | 35 | - | - | 182,557 |
| Real estate activities | 699,203 | 29,427 | 9,495 | 88,748 | 826,873 |
| Professional, scientific and technical activities | 133,651 | 13,567 | 68,573 | 13,584 | 229,374 |
| Administrative and support service activities | 120,954 | 32,711 | 24 | 3,023 | 156,712 |
| Public administration and defence, compulsory social security | 22,698,727 | 227,121 | 4 | 20,249 | 22,946,100 |
| Education | 11,412 | 261 | 17 | 32 | 11,723 |
| Human health services and social work activities | 7,846 | 149,940 | - | 522 | 158,308 |
| Arts, entertainment and recreation | 1,120 | 1,589 | 954 | 44 | 3,708 |
| Other services | 40,897 | 3,106 | 57 | 2,919 | 46,980 |
| Private households | 15,668,372 | 3,936,287 | 122,585 | 1,200,222 | 20,927,467 |
| Others | - | 11 | - | - | 11 |
| Total | 53,281,593 | 7,528,820 | 839,869 | 3,196,127 | 64,846,409 |

39. RISK MANAGEMENT (continued)
39.5. CREDIT RISK (continued)

| In RON thousand, as of 31 Dec 2016 | | | | | Bank |
|---|-------------------|----------------------|----------------|------------------|----------------------------|
| | Low risk | Management attention | Substandard | Non-performing | Total credit risk exposure |
| Agriculture, forestry and fishing | 243,459 | 218,399 | 1,791 | 46,969 | 510,618 |
| Mining and quarrying | 1,227,587 | 86,924 | 0 | 267,802 | 1,582,313 |
| Manufacturing | 1,936,234 | 1,292,758 | 142,834 | 1,117,326 | 4,489,151 |
| Electricity, gas, steam and air conditioning supply | 377,928 | 316,100 | 11,978 | 79,735 | 785,741 |
| Water supply | 160,820 | 36,316 | 0 | 16,550 | 213,686 |
| Construction | 1,595,008 | 915,985 | 2,338 | 506,726 | 3,020,057 |
| Construction: Building project development | 744,574 | 15,771 | 1 | 105,016 | 865,361 |
| Wholesale and retail trade | 2,614,629 | 589,845 | 6,755 | 397,423 | 3,608,653 |
| Transport and storage | 655,722 | 17,788 | 64 | 48,836 | 722,411 |
| Accommodation and food service activities | 29,450 | 2,975 | 96 | 30,997 | 63,519 |
| Information and communication | 199,623 | 58,149 | 2,225 | 43,587 | 303,584 |
| Financial and insurance services | 1,194,418 | 451,774 | 1,384 | 44,654 | 1,692,229 |
| Financial and insurance services: Holding companies | 233,320 | 0 | - | 34 | 233,354 |
| Real estate activities | 566,669 | 92,471 | 15,165 | 140,923 | 815,228 |
| Professional, scientific and technical activities | 102,266 | 104,610 | 2,074 | 27,054 | 236,004 |
| Administrative and support service activities | 74,091 | 14,116 | 205 | 3,508 | 91,919 |
| Public administration and defence, compulsory social security | 21,666,780 | 239,615 | 19,481 | 69,155 | 21,995,030 |
| Education | 11,228 | 27 | 92 | 290 | 11,637 |
| Human health services and social work activities | 3,235 | 108,736 | 831 | 10,240 | 123,043 |
| Arts, entertainment and recreation | 1,050 | 1,798 | 21 | 226 | 3,093 |
| Other services | 42,680 | 3,543 | - | 3,744 | 49,966 |
| Private households | 14,573,624 | 4,211,384 | 129,538 | 1,437,039 | 20,351,585 |
| Others | - | 0 | - | 12 | 12 |
| Total | 47,276,501 | 8,763,311 | 336,872 | 4,292,797 | 60,669,481 |

Credit risk exposure by region and risk category

| In RON thousand, as of 31 Dec 2017 | | | | | Group |
|---------------------------------------|-------------------|----------------------|----------------|------------------|----------------------------|
| | Low risk | Management attention | Substandard | Non-performing | Total credit risk exposure |
| Core market | 55,534,841 | 8,043,747 | 639,270 | 3,358,020 | 67,575,878 |
| Austria | 2,489,858 | 21,938 | - | 62,038 | 2,573,834 |
| Croatia | - | 0 | - | - | 0 |
| Romania | 53,041,982 | 8,021,763 | 639,270 | 3,295,980 | 64,998,995 |
| Serbia | - | 29 | - | - | 29 |
| Slovakia | 30 | 0 | - | - | 30 |
| Slovenia | - | - | - | - | - |
| Czech Republic | 2,955 | 10 | - | - | 2,965 |
| Hungary | 15 | 8 | - | 2 | 25 |
| Other EU countries | 89,529 | 3,410 | 206,395 | 8,365 | 307,699 |
| Other industrialised countries | 2,261 | 7,610 | - | 835 | 10,706 |
| Emerging markets | 98,221 | 115,612 | 4,289 | 30,741 | 248,863 |
| Southeastern Europe/CIS | 97,559 | 115,462 | 4,289 | 30,533 | 247,843 |
| Asia | 158 | 117 | - | - | 275 |
| Latin America | - | 4 | - | - | 4 |
| Middle East/Africa | 504 | 29 | - | 207 | 741 |
| Total | 55,724,852 | 8,170,379 | 849,954 | 3,397,961 | 68,143,146 |

39. RISK MANAGEMENT (continued)
39.5. CREDIT RISK (continued)

| In RON thousand, as of 31 Dec 2016 | | | | | Group |
|---------------------------------------|-------------------|----------------------|----------------|------------------|----------------------------|
| | Low risk | Management attention | Substandard | Non-performing | Total credit risk exposure |
| Core market | 50,289,379 | 8,401,895 | 361,419 | 4,537,071 | 63,589,763 |
| Austria | 186,973 | 27,389 | - | 62,037 | 276,399 |
| Croatia | - | 0 | - | 0 | 0 |
| Romania | 50,101,443 | 8,369,151 | 361,419 | 4,475,024 | 63,307,036 |
| Serbia | - | 0 | - | 1 | 1 |
| Slovakia | - | 0 | - | 0 | 0 |
| Slovenia | - | - | - | - | - |
| Czech Republic | 943 | 0 | - | 0 | 943 |
| Hungary | 20 | 5,355 | 0 | 9 | 5,384 |
| Other EU countries | 62,029 | 295,477 | 228 | 9,355 | 367,090 |
| Other industrialised countries | 1,834 | 93,965 | - | 926 | 96,725 |
| Emerging markets | 151,979 | 2,871 | 4,098 | 34,936 | 193,884 |
| Southeastern Europe/CIS | 151,529 | 2,551 | 4,098 | 34,891 | 193,070 |
| Asia | 257 | 65 | - | 8 | 330 |
| Latin America | 86 | 0 | - | 6 | 92 |
| Middle East/Africa | 106 | 254 | - | 31 | 392 |
| Total | 50,505,221 | 8,794,209 | 365,745 | 4,582,289 | 64,247,463 |

| In RON thousand, as of 31 Dec 2017 | | | | | Bank |
|---------------------------------------|-------------------|----------------------|----------------|------------------|----------------------------|
| | Low risk | Management attention | Substandard | Non-performing | Total credit risk exposure |
| Core market | 53,188,918 | 7,513,875 | 633,474 | 3,186,725 | 64,522,992 |
| Austria | 2,466,925 | 381 | - | 62,037 | 2,529,342 |
| Croatia | - | 0 | - | - | 0 |
| Romania | 50,718,994 | 7,513,448 | 633,474 | 3,124,686 | 61,990,601 |
| Serbia | - | 29 | - | - | 29 |
| Slovakia | 30 | 0 | - | - | 30 |
| Slovenia | - | - | - | - | - |
| Czech Republic | 2,955 | 10 | - | - | 2,965 |
| Hungary | 15 | 8 | - | 2 | 25 |
| Other EU countries | 89,529 | 3,410 | 206,395 | 8,360 | 307,695 |
| Other industrialised countries | 2,261 | 7,610 | - | 835 | 10,706 |
| Emerging markets | 884 | 3,925 | - | 208 | 5,016 |
| Southeastern Europe/CIS | 221 | 3,775 | - | 0 | 3,997 |
| Asia | 158 | 117 | - | - | 275 |
| Latin America | - | 4 | - | - | 4 |
| Middle East/Africa | 504 | 29 | - | 207 | 741 |
| Total | 53,281,593 | 7,528,820 | 839,869 | 3,196,127 | 64,846,409 |

39. RISK MANAGEMENT (continued)
39.5. CREDIT RISK (continued)

| In RON thousand, as of 31 Dec 2016 | | | | | Bank |
|---------------------------------------|-------------------|----------------------|----------------|------------------|----------------------------|
| | Low risk | Management attention | Substandard | Non-performing | Total credit risk exposure |
| Core market | 47,211,917 | 8,372,863 | 333,012 | 4,282,462 | 60,200,254 |
| Austria | 112,127 | 10 | - | 62,037 | 174,174 |
| Croatia | - | 0 | - | 0 | 0 |
| Romania | 47,098,827 | 8,372,848 | 333,011 | 4,220,415 | 60,025,101 |
| Serbia | - | 0 | - | 1 | 1 |
| Slovakia | - | 0 | - | 0 | 0 |
| Slovenia | - | - | - | - | - |
| Czech Republic | 943 | 0 | - | 0 | 943 |
| Hungary | 20 | 5 | 0 | 9 | 34 |
| Other EU countries | 62,029 | 295,477 | 228 | 9,355 | 367,090 |
| Other industrialised countries | 1,834 | 93,965 | - | 926 | 96,725 |
| Emerging markets | 721 | 1,005 | 3,633 | 54 | 5,413 |
| Southeastern Europe/CIS | 271 | 686 | 3,633 | 9 | 4,598 |
| Asia | 257 | 65 | - | 8 | 330 |
| Latin America | 86 | 0 | - | 6 | 92 |
| Middle East/Africa | 106 | 254 | - | 31 | 392 |
| Total | 47,276,501 | 8,763,311 | 336,872 | 4,292,797 | 60,669,481 |

The geographic analysis of credit exposure is based on the country of risk of the borrower and counterparty. It comprises obligors domiciled in other countries if the economic risk exists in the respective country of risk.

Credit risk exposure increased in absolute figures mainly in Austria with RON 2,297,436 thousands from RON 276,399 thousands in 2016 to RON 2,573,834 thousands in 2017 in case of BCR Group and in Romania, with RON 1,691,959 thousands from RON 63,307,036 thousands in 2016 to RON 64,998,995 thousands in 2017 in case of BCR Group.

The increase in exposure in main markets Austria and Romania registered at Group level is also observed at Bank level: increase with RON 2,355,168 thousands in Austria from RON 174,174 thousands in 2016 to RON 2,529,342 thousands in 2017 and increase with RON 1,965,500 thousands from RON 60,025,101 thousands in 2016 to RON 61,990,601 thousands in 2017. The share of emerging markets remained of minor importance.

Credit risk exposure by reporting segment and risk category

| In RON thousand, as of 31 Dec 2017 | | | | | Group |
|--------------------------------------|-------------------|----------------------|----------------|------------------|----------------------------|
| | Low risk | Management attention | Substandard | Non-performing | Total credit risk exposure |
| RET_BCR - Retail | 17,925,687 | 3,735,738 | 123,070 | 1,357,015 | 23,141,509 |
| SME_BCR - SME | 3,148,852 | 2,279,980 | 174,340 | 588,911 | 6,192,083 |
| LLC_BCR - Local Large Corporates | 1,026,906 | 1,163,406 | 301,798 | 1,302,940 | 3,795,050 |
| PS_BCR - Public Sector | 5,422,392 | 327,005 | 9,155 | 2,654 | 5,761,207 |
| GLC_BCR - Group Large Corporates | 4,070,108 | 300,667 | 232,088 | 62,578 | 4,665,442 |
| CRE_BCR - Commercial Real Estate | 1,348,149 | 2,012 | 6,235 | 76,694 | 1,433,090 |
| GMT_BCR - GM Trading | 1,944,212 | 5,483 | 3,267 | - | 1,952,962 |
| GMFI_BCR - GM Financial Institutions | 541,292 | 11,418 | - | - | 552,710 |
| ALM_BCR - ALM | 19,745,174 | 50,007 | - | 806 | 19,795,986 |
| CC_BCR - Corporate Center | 552,081 | 294,663 | 0 | 6,362 | 853,106 |
| Total | 55,724,852 | 8,170,379 | 849,954 | 3,397,961 | 68,143,146 |

39. RISK MANAGEMENT (continued)
39.5. CREDIT RISK (continued)

| In RON thousand, as of 31 Dec 2016 | | | | | Group |
|--------------------------------------|-------------------|----------------------|----------------|------------------|----------------------------|
| | Low risk | Management attention | Substandard | Non-performing | Total credit risk exposure |
| RET_BCR - Retail | 17,298,054 | 3,784,400 | 129,957 | 1,653,392 | 22,865,804 |
| SME_BCR - SME | 3,104,196 | 1,451,614 | 99,425 | 740,627 | 5,395,862 |
| LLC_BCR - Local Large Corporates | 1,649,696 | 1,689,786 | 97,970 | 1,947,569 | 5,385,021 |
| PS_BCR - Public Sector | 5,955,403 | 294,719 | 19,099 | 56,064 | 6,325,284 |
| GLC_BCR - Group Large Corporates | 2,704,082 | 922,268 | 3 | 63,854 | 3,690,207 |
| CRE_BCR - Commercial Real Estate | 1,476,139 | 79,177 | 15,165 | 113,905 | 1,684,387 |
| GMT_BCR - GM Trading | 1,021,842 | 55,620 | - | - | 1,077,462 |
| GMFI_BCR - GM Financial Institutions | 178,446 | 594 | 1,284 | 8 | 180,331 |
| ALM_BCR - ALM | 17,110,311 | 4,358 | 117 | - | 17,114,786 |
| CC_BCR - Corporate Center | 7,051 | 511,672 | 2,725 | 6,871 | 528,318 |
| Total | 50,505,221 | 8,794,209 | 365,745 | 4,582,289 | 64,247,463 |

| In RON thousand, as of 31 Dec 2017 | | | | | Bank |
|--------------------------------------|-------------------|----------------------|----------------|------------------|----------------------------|
| | Low risk | Management attention | Substandard | Non-performing | Total credit risk exposure |
| RET_BCR – Retail3 | 16,007,563 | 3,735,738 | 123,070 | 1,242,350 | 21,108,720 |
| SME_BCR - SME | 2,190,274 | 1,562,332 | 144,152 | 499,096 | 4,395,853 |
| LLC_BCR - Local Large Corporates | 1,026,906 | 1,163,406 | 321,901 | 1,302,940 | 3,815,154 |
| PS_BCR - Public Sector | 5,422,392 | 327,005 | 9,155 | 2,654 | 5,761,207 |
| GLC_BCR - Group Large Corporates | 4,070,108 | 300,667 | 232,088 | 62,578 | 4,665,442 |
| CRE_BCR - Commercial Real Estate | 1,348,149 | 2,012 | 6,235 | 76,694 | 1,433,090 |
| GMT_BCR - GM Trading | 1,944,212 | 5,483 | 3,267 | - | 1,952,962 |
| GMFI_BCR - GM Financial Institutions | 545,389 | 13,006 | - | - | 558,395 |
| ALM_BCR - ALM | 20,174,522 | 114,090 | - | 806 | 20,289,418 |
| CC_BCR - Corporate Center | 552,077 | 305,081 | 0 | 9,010 | 866,168 |
| Total | 53,281,593 | 7,528,820 | 839,869 | 3,196,127 | 64,846,409 |

39. RISK MANAGEMENT (continued)
39.5. CREDIT RISK (continued)

| | In RON thousand, as of 31 Dec 2016 | | | | Bank |
|--------------------------------------|------------------------------------|----------------------|----------------|------------------|----------------------------|
| | Low risk | Management attention | Substandard | Non-performing | Total credit risk exposure |
| RET_BCR - Retail | 14,939,770 | 3,784,400 | 129,957 | 1,516,489 | 20,370,617 |
| SME_BCR - SME | 2,113,091 | 1,024,348 | 69,644 | 579,455 | 3,786,538 |
| LLC_BCR - Local Large Corporates | 1,649,696 | 1,709,732 | 97,970 | 1,947,569 | 5,404,967 |
| PS_BCR - Public Sector | 5,956,461 | 294,719 | 19,099 | 56,064 | 6,326,343 |
| GLC_BCR - Group Large Corporates | 2,704,082 | 922,268 | 3 | 63,854 | 3,690,207 |
| CRE_BCR - Commercial Real Estate | 700,399 | 79,177 | 15,165 | 120,190 | 914,932 |
| GMT_BCR - GM Trading | 1,021,842 | 55,620 | - | - | 1,077,462 |
| GMFI_BCR - GM Financial Institutions | 257,260 | 54,369 | 1,284 | 8 | 312,921 |
| ALM_BCR - ALM | 17,929,232 | 322,688 | 117 | - | 18,252,037 |
| CC_BCR - Corporate Center | 4,667 | 515,990 | 3,633 | 9,168 | 533,457 |
| Total | 47,276,501 | 8,763,311 | 336,872 | 4,292,797 | 60,669,481 |

Non-performing credit risk exposure and credit risk provisions

For the definition of credit risk exposure classified as non-performing, please refer to the description of risk categories in the subsection 'Internal rating system'. Credit risk provisions include specific and collective allowances and provisions for guarantees.

Credit risk allowances (specific and collective allowances) and provisions for guarantees cover 91% (2016: 84%) of the reported non-performing credit risk exposure as of 31 December 2017 in case of the Group and 92% (2016: 84%) of the reported non-performing credit risk exposure as of 31 December 2017 in case of Bank. For the portion of the non-performing credit risk exposure that is not covered by allowances, BCR Group assumes there are sufficient levels of collateral and expected other recoveries.

During 2017, the non-performing credit risk exposure decreased by 25.8% or by RON 1,184,328 thousands from RON 4,582,289 thousands as of 31 December 2016 to RON 3,397,961 thousands as of 31 December 2017 in case of BCR Group. In case of BCR Bank the decrease in non-performing exposure was by 25.5% or by RON 1,096,670 thousands from RON 4,292,797 thousands as of 31 December 2016 to RON 3,196,127 thousands as of 31 December 2017. Main clean-up actions - write-offs and sales, as well as recoveries (repayments exceeding new inflow), contributed to the reduction of non-performing exposure in 2017.

The credit risk allowances for loans and advances as well as provisions for guarantees decreased by RON 738,245 thousands in 2017, or by 19.3%, from RON 3,826,885 thousands as of 31 December 2016 to RON 3,088,640 thousands as of 31 December 2017 in case of BCR Group. For BCR Bank the decrease in credit risk allowances for loans and advances as well as provisions for guarantees was in amount of RON 685,652 thousands in 2017, or by 19.0%, from RON 3,610,386 thousands as of 31 December 2016 to RON 2,924,734 thousands as of 31 December 2017.

These movements resulted in an increase by 7.4 percentage points, from 83.5% to 90.9%, in the coverage of the non-performing credit risk exposure by credit risk provisions for BCR Group and an increase by 7.4 percentage points, from 84.1% to 91.5%, in the coverage of the non-performing credit risk exposure by credit risk provisions for BCR Bank.

The following tables show the coverage of the non-performing credit risk exposure across the reporting segments by credit risk provisions (without taking into consideration collateral) as of 31 December 2017 and 31 December 2016 BCR Group and BCR Bank. The differences in provisioning levels for the segments result from the risk situation in the respective markets, different levels of collateralization as well as the local legal environment and regulatory requirements.

The non-performing exposure ratio (NPE ratio) is calculated as the non-performing credit risk exposure divided by total credit risk exposure while the NPE coverage ratio (excl. collateral) is computed as the credit risk provisions divided by non-performing credit risk exposure. Collateral or other recoveries are not taken into account.

39. RISK MANAGEMENT (continued)
39.5. CREDIT RISK (continued)

| In RON thousand, as of 31 Dec 2017 | | | | | | | | | Group |
|--------------------------------------|------------------|----------------------|------------------------------|-------------------|--|--|--|-----------|--------------------|
| | Non-performing | Credit risk exposure | Total credit risk provisions | Carrying amount | Specific allowances for individually assessed financial assets | Specific allowances for collectively assessed financial assets | Collective allowances for incurred but not reported losses | NPE ratio | NPE coverage ratio |
| RET_BCR - Retail | 1,357,015 | 23,141,509 | (1,312,072) | 21,829,437 | (59,977) | (1,004,676) | (247,419) | 6% | 97% |
| SME_BCR - SME | 588,911 | 6,192,083 | (511,291) | 5,680,792 | (326,540) | (25,254) | (159,497) | 10% | 87% |
| LLC_BCR - Local Large Corporates | 1,302,940 | 3,795,050 | (993,441) | 2,801,610 | (816,551) | (6,485) | (170,405) | 34% | 76% |
| PS_BCR - Public Sector | 2,654 | 5,761,207 | (39,621) | 5,721,586 | - | (354) | (39,267) | 0% | 1493% |
| GLC_BCR - Group Large Corporates | 62,578 | 4,665,442 | (158,912) | 4,506,529 | (61,923) | (1) | (96,989) | 1% | 254% |
| CRE_BCR - Commercial Real Estate | 76,694 | 1,433,090 | (52,505) | 1,380,585 | (49,861) | (55) | (2,590) | 5% | 68% |
| GMT_BCR - GM Trading | - | 1,952,962 | (383) | 1,952,580 | - | - | (383) | 0% | |
| GMFI_BCR - GM Financial Institutions | - | 552,710 | (289) | 552,421 | - | - | (289) | 0% | |
| ALM_BCR - ALM | 806 | 19,795,986 | (2,425) | 19,793,561 | - | - | (2,425) | 0% | 301% |
| CC_BCR - Corporate Center | 6,362 | 853,106 | (17,702) | 835,405 | (2,648) | - | (15,054) | 1% | 278% |
| Total | 3,397,961 | 68,143,146 | (3,088,640) | 65,054,505 | (1,317,499) | (1,036,825) | (734,316) | 5% | 91% |

| In RON thousand, as of 31 Dec 2016 | | | | | | | | | Group |
|--------------------------------------|------------------|----------------------|------------------------------|-------------------|--|--|--|-----------|--------------------|
| | Non-performing | Credit risk exposure | Total credit risk provisions | Carrying amount | Specific allowances for individually assessed financial assets | Specific allowances for collectively assessed financial assets | Collective allowances for incurred but not reported losses | NPE ratio | NPE coverage ratio |
| RET_BCR - Retail | 1,653,392 | 22,865,804 | (1,561,271) | 21,304,533 | (115,566) | (1,102,265) | (343,440) | 7% | 94% |
| SME_BCR - SME | 740,627 | 5,395,862 | (550,746) | 4,845,116 | (408,077) | (36,256) | (106,413) | 14% | 74% |
| LLC_BCR - Local Large Corporates | 1,947,569 | 5,385,021 | (1,461,397) | 3,923,624 | (1,339,492) | (6,223) | (115,681) | 36% | 75% |
| PS_BCR - Public Sector | 56,064 | 6,325,284 | (52,541) | 6,272,743 | (15,615) | (58) | (36,868) | 1% | 94% |
| GLC_BCR - Group Large Corporates | 63,854 | 3,690,207 | (109,566) | 3,580,640 | (61,631) | (2) | (47,934) | 2% | 172% |
| CRE_BCR - Commercial Real Estate | 113,905 | 1,684,387 | (79,475) | 1,604,912 | (72,974) | (84) | (6,417) | 7% | 70% |
| GMT_BCR - GM Trading | - | 1,077,462 | (4,675) | 1,072,787 | - | - | (4,675) | 0% | |
| GMFI_BCR - GM Financial Institutions | 8 | 180,331 | (392) | 179,940 | - | (8) | (384) | 0% | 4865% |
| ALM_BCR - ALM | - | 17,114,786 | (39) | 17,114,746 | - | - | (39) | 0% | |
| CC_BCR - Corporate Center | 6,871 | 528,318 | (6,782) | 521,536 | (3,586) | (0) | (3,196) | 1% | 99% |
| Total | 4,582,289 | 64,247,463 | (3,826,885) | 60,420,578 | (2,016,941) | (1,144,896) | (665,047) | 7% | 84% |

| In RON thousand, as of 31 Dec 2017 | | | | | | | | | Bank |
|--------------------------------------|------------------|----------------------|------------------------------|-------------------|--|--|--|-----------|--------------------|
| | Non-performing | Credit risk exposure | Total credit risk provisions | Carrying amount | Specific allowances for individually assessed financial assets | Specific allowances for collectively assessed financial assets | Collective allowances for incurred but not reported losses | NPE ratio | NPE coverage ratio |
| RET_BCR - Retail | 1,242,350 | 21,108,720 | (1,217,384) | 19,891,336 | (54,728) | (917,098) | (245,559) | 6% | 98% |
| SME_BCR - SME | 499,096 | 4,395,853 | (442,074) | 3,953,780 | (294,272) | (14,337) | (133,465) | 11% | 89% |
| LLC_BCR - Local Large Corporates | 1,302,940 | 3,815,154 | (993,441) | 2,821,713 | (816,551) | (6,485) | (170,405) | 34% | 76% |
| PS_BCR - Public Sector | 2,654 | 5,761,207 | (39,621) | 5,721,586 | - | (354) | (39,267) | 0% | 1493% |
| GLC_BCR - Group Large Corporates | 62,578 | 4,665,442 | (158,912) | 4,506,529 | (61,923) | (1) | (96,989) | 1% | 254% |
| CRE_BCR - Commercial Real Estate | 76,694 | 1,433,090 | (52,505) | 1,380,585 | (49,861) | (55) | (2,590) | 5% | 68% |
| GMT_BCR - GM Trading | - | 1,952,962 | (383) | 1,952,580 | - | - | (383) | 0% | |
| GMFI_BCR - GM Financial Institutions | - | 558,395 | (289) | 558,107 | - | - | (289) | 0% | |
| ALM_BCR - ALM | 806 | 20,289,418 | (2,425) | 20,286,993 | - | - | (2,425) | 0% | 301% |
| CC_BCR - Corporate Center | 9,010 | 866,168 | (17,702) | 848,466 | (2,648) | - | (15,054) | 1% | 196% |
| Total | 3,196,127 | 64,846,409 | (2,924,734) | 61,921,674 | (1,279,981) | (938,329) | (706,424) | 5% | 92% |

39. RISK MANAGEMENT (continued)
39.5. CREDIT RISK (continued)

| In RON thousand, as of 31 Dec 2016 | | | | | | | | | Bank | |
|--------------------------------------|------------------|----------------------|------------------------------|-------------------|--|--|--|-----------|--------------------|--|
| | Non-performing | Credit risk exposure | Total credit risk provisions | Carrying amount | Specific allowances for individually assessed financial assets | Specific allowances for collectively assessed financial assets | Collective allowances for incurred but not reported losses | NPE ratio | NPE coverage ratio | |
| RET_BCR - Retail | 1,516,489 | 20,370,617 | (1,437,103) | 18,933,514 | (101,043) | (994,555) | (341,505) | 7% | 95% | |
| SME_BCR - SME | 579,455 | 3,786,538 | (452,260) | 3,334,278 | (347,338) | (19,605) | (85,317) | 15% | 78% | |
| LLC_BCR - Local Large Corporates | 1,947,569 | 5,404,967 | (1,461,397) | 3,943,570 | (1,339,492) | (6,223) | (115,681) | 36% | 75% | |
| PS_BCR - Public Sector | 56,064 | 6,326,343 | (52,541) | 6,273,802 | (15,615) | (58) | (36,868) | 1% | 94% | |
| GLC_BCR - Group Large Corporates | 63,854 | 3,690,207 | (109,566) | 3,580,640 | (61,631) | (2) | (47,934) | 2% | 172% | |
| CRE_BCR - Commercial Real Estate | 120,190 | 914,932 | (86,289) | 828,643 | (72,974) | (84) | (13,232) | 13% | 72% | |
| GMT_BCR - GM Trading | - | 1,077,462 | (4,675) | 1,072,787 | - | - | (4,675) | 0% | | |
| GMFI_BCR - GM Financial Institutions | 8 | 312,921 | (392) | 312,530 | - | (8) | (384) | 0% | 4865% | |
| ALM_BCR - ALM | - | 18,252,037 | (39) | 18,251,998 | - | - | (39) | 0% | | |
| CC_BCR - Corporate Center | 9,168 | 533,457 | (6,124) | 527,333 | (2,928) | (0) | (3,196) | 2% | 67% | |
| Total | 4,292,797 | 60,669,481 | (3,610,386) | 57,059,095 | (1,941,021) | (1,020,535) | (648,831) | 7% | 84% | |

The general principles and standards for credit risk provisions within BCR Group are described in the internal policies. Credit risk provisions are calculated:

- for financial assets carried at amortized cost (loans and receivables, financial assets held to maturity) in accordance with IAS 39 and
- for contingent liabilities (financial guarantees, loan commitments) in accordance with IAS 37.

For financial assets held to maturity collective provisions based on PD and LGD risk parameters are calculated in accordance with IAS 39. However, the HTM portfolio includes debt securities issued by sovereign with low risk, leading to an insignificant provisioning coverage of almost 0.02%.

Credit risk provisions are created in a process performed on customer level. The process includes the identification of default and impairment and the type of assessment (individual or collective) to be applied. 'On customer level' means in this context that if one of the customer's exposures is classified as defaulted, typically all of this customer's exposures are classified as defaulted. Depending on the characteristics of the exposure and the respective expected cash flows (e.g. considering collateral), some exposures may not be impaired.

The bank distinguishes between two types of allowances:

- specific allowances calculated for exposures to defaulted customers that are deemed to be impaired and
- collective allowances (allowances for incurred but not reported losses) calculated for exposures to non-defaulted customers or defaulted customers that are not deemed to be impaired.

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

- Significant financial difficulty of issuer or obligor;
- A breach of contract, such as default or delinquency in interest or principal payments
- The lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group;

BCR has developed a methodology for assessing the expected loss of the "Datio in solutum" eligible performing portfolio of the Bank and collective provisions were booked. Specific allowances are booked for all loans where notifications were received based on law's provisions (77/2016). Until December 31st 2017, the total number of notifications received based on law 77/2016 decreased significantly to 160 as compared to 2016 when the total number of notifications received based on law 77/2016 provisions were related to 1,119 accounts (out of which 113 represent active accounts at 31st December 2017 and 400 at 31st December 2016).

39. RISK MANAGEMENT (continued)
39.5. CREDIT RISK (continued)

The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Bank determines the allowances appropriate for each loan of the individually significant clients, meaning clients with On and Off balance exposure higher than 400,000 EUR equivalent or advance on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should Bankruptcy ensure, the availability of other financial support and the realizable value of collateral and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans and advances of the clients that are not individually significant, meaning clients with On and Off balance exposure lower than 400,000 EUR equivalent and for individually significant loans and advances where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet identified evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: observed historical losses on the portfolio, number of months since default, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected recoveries once impaired. Local management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Bank's overall policy.

| In RON thousand | Group | |
|---|------------------|------------------|
| | Dec-17 | Dec-16 |
| Specific allowances | 2,089,902 | 2,993,898 |
| Collective allowances | 647,482 | 607,646 |
| Provisions for commitments and guarantees | 351,257 | 225,341 |
| Total | 3,088,640 | 3,826,885 |

| In RON thousand | Bank | |
|---|------------------|------------------|
| | Dec-17 | Dec-16 |
| Specific allowances | 1,953,888 | 2,793,616 |
| Collective allowances | 619,688 | 591,457 |
| Provisions for commitments and guarantees | 351,158 | 225,314 |
| Total | 2,924,734 | 3,610,386 |

Restructuring, renegotiation and forbearance

Restructuring means contractual modification of any of the customer's loan repayment conditions including tenor, interest rate, fees, principal amount due or a combination thereof. Restructuring can be business restructuring (in the retail segment), commercial renegotiation (in the corporate segment), or forbearance (e.g. concession due to financial difficulties) in line with EBA requirements in both segments.

Business restructuring and renegotiation

Restructuring as business restructuring in the retail segment or as commercial renegotiation in the corporate segment is a potential and effective customer retention tool involving repricing or the offering of an additional loan or both in order to maintain the bank's valuable, good clientele.

Forbearance

The definition of 'forbearance' is included in Regulation (EU) 2015/227. A restructuring is considered 'forbearance' if it entails a concession towards a customer facing or about to face financial difficulties in meeting their contractual financial commitments. A borrower is in financial difficulties if any of the following conditions are met:

39. RISK MANAGEMENT (continued)**39.5. CREDIT RISK (continued)**

- the customer was more than 30 days past due in the past 3 months;
- the customer would be 30 days past due or more without receiving forbearance;
- the customer is in default;
- the modified contract was classified as non-performing or would be non-performing without forbearance;
- the contract modification involves total or partial cancellation by write-off of the debt on any of the customer's credit obligations while at customer level open credit exposure still remains.

Forborne exposure is assessed at loan contract level and means only the exposure to which forbearance measures have been extended and excludes any other exposure the customer may have, as long as no forbearance was extended to these.

Concession means that any of the following conditions are met:

- modification/refinancing of the contract would not have been granted, had the customer not been in financial difficulty;
- there is a difference in favor of the customer between the modified/refinanced terms of the contract and the previous terms of the contract;
- the modified/refinanced contract includes more favorable terms than other customers with a similar risk profile would have obtained from the same institution.

Forbearance can be initiated by the bank or by the customer (on account of loss of employment, illness etc.). Components of forbearance can be instalment reduction, tenor extension, interest reduction or forgiveness, principal reduction or forgiveness, revolving exposure change to instalment and/or others.

Forbearance measures are divided and reported as:

- performing forbearance (incl. performing forbearance under probation that was upgraded from non-performing forbearance) and
- non-performing forbearance (incl. non-performing forbearance and defaulted/impaired forbearance).

In case of defaulted/impaired forbearance the Bank revises its estimates of payments or receipts. The Bank recalculates the carrying amount by computing the present value of estimated future cash flows at the revised effective interest rate. The adjustment is recognised in profit or loss as expense.

Forborne exposures are considered performing when:

- the exposure did not have non-performing status at the time the extension of or application for forbearance was approved and
- granting the forbearance has not led to classifying the exposure as non-performing or default.

Performing forborne exposures become non-performing when during the monitoring period of a minimum of two years one of the following forbearance classifications is fulfilled:

- an additional forbearance measure is extended and in the past the customer was in the non-performing forbearance category;
- the customer becomes more than 30 days past due on forborne exposure and in the past the customer was in the non-performing forbearance category;
- the customer meets any of the default event criteria defined in the default definition;
- for corporate customers, when a final restructuring agreement cannot be concluded within 18 months after the first forbearance measure.

The performing forbearance classification can be discontinued and the account can become a non-forborne account when all of the following conditions are met:

- a minimum of two years have passed from the date of classifying the exposure as performing forbearance (probation period);
- under the forborne payment plan, at least 50% of the original (pre-forbearance) instalment has been regularly repaid at least during half of the probation period (in the case of retail customers);
- regular repayments in a significant amount during at least half of the probation period have been made (in the case of corporate customers);

39. RISK MANAGEMENT (continued)
39.5. CREDIT RISK (continued)

- none of the exposure of the customer is more than 30 days past due at the end of the probation period.

The non-performing forbearance classification can be discontinued and reclassified as performing under probation when all of the following conditions are met:

- one year has passed from the date of classifying the exposure as non-performing forbearance;
- the forbearance has not led the exposure to be classified as non-performing;
- retail customers: the customer has demonstrated the ability to comply with the post-forbearance conditions by either of the following:
 - the customer has never been more than 30 days past due during the last 6 months and there is no delinquent amount;
 - the customer has repaid the full past due amount or the written-off amount (if there was any).
- corporate customers: analysis of the financial development, which leaves no concern about future compliance with post-forbearance terms and conditions. Furthermore, the customer has never been more than 30 days past due during the monitoring period and there is no delinquent amount.

In the corporate segment, recognition of forbearance measures typically leads to the involvement of the responsible local workout unit. The largest part of the forbearance measures are set within the responsibility of the local workout units and the affected clients are managed and monitored according to the internal regulations and standards for the workout involvement. Forbearance measures are defined as trigger events for carrying out impairment tests according to the internal regulations and standards based on the IFRS requirements.

Credit risk exposure, forbearance exposure and credit risk provisions

| In RON thousand | Group | | | | |
|---|--------------------------|---------------------|-------------------------------------|---------------------------|---------------------|
| | Loans and receivables | Financial assets | Other balance-sheet positions | Contingent liabilities | Total |
| As of 31 December 2017 | | | | | |
| Gross exposure | 38,439,766.6 | 21,196,410.0 | 721,372.8 | 7,785,596.3 | 68,143,145.6 |
| thereof gross forborne exposure | 2,917,784 | - | - | 30,186 | 2,947,971 |
| Performing exposure | 35,497,471 | 21,173,562 | 721,373 | 7,352,779 | 64,745,185 |
| thereof performing forborne exposure | 1,393,907 | - | - | 12,815 | 1,406,722 |
| Credit risk provisions for performing exposure | (643,870) | (3,612) | - | (86,834) | (734,316) |
| thereof credit risk provisions for performing forborne exposure | (65,997) | - | - | - | (65,997) |
| Non-performing exposure | 2,942,296 | 22,848 | - | 432,817 | 3,397,961 |
| thereof non-performing forborne exposure | 1,523,877 | - | - | 17,371 | 1,541,249 |
| Credit risk provisions for non-performing exposure | (2,089,902) | - | - | (264,423) | (2,354,324) |
| thereof credit risk provisions for non-performing forborne exposure | (973,268) | - | - | (174) | (973,441) |
| Net book value for forborne exposure | 1,878,520 | - | - | 30,013 | 1,908,532 |

39. RISK MANAGEMENT (continued)
39.5. CREDIT RISK (continued)

| In RON thousand | Group | | | | |
|---|--------------------------|---------------------|-------------------------------------|---------------------------|-------------------|
| | Loans and receivables | Financial assets | Other balance-sheet positions | Contingent liabilities | Total |
| As of 31 December 2016 | | | | | |
| Gross exposure | 36,442,048 | 19,858,807 | 229,405 | 7,717,203 | 64,247,463 |
| thereof gross forborne exposure | 2,969,573 | - | - | 13,244 | 2,982,817 |
| Performing exposure | 32,229,594 | 19,857,348 | 229,405 | 7,348,827 | 59,665,174 |
| thereof performing forborne exposure | 1,493,189 | - | - | 9,796 | 1,502,985 |
| Credit risk provisions for performing exposure | (598,437) | (3,460) | - | (57,400) | (659,297) |
| thereof credit risk provisions for performing forborne exposure | (33,576) | - | - | - | (33,576) |
| Non-performing exposure | 4,212,453 | 1,460 | - | 368,376 | 4,582,289 |
| thereof non-performing forborne exposure | 1,476,384 | - | - | 3,448 | 1,479,832 |
| Credit risk provisions for non-performing exposure | (2,999,647) | - | - | (167,942) | (3,167,588) |
| thereof credit risk provisions for non-performing forborne exposure | (877,608) | - | - | 629 | (876,979) |
| Net book value for forborne exposure | 2,058,388 | - | - | 13,873 | 2,072,261 |

| In RON thousand | Bank | | | | |
|---|--------------------------|---------------------|-------------------------------------|---------------------------|---------------------|
| | Loans and receivables | Financial assets | Other balance-sheet positions | Contingent liabilities | Total |
| As of 31 December 2017 | | | | | |
| Gross exposure | 37,010,305.6 | 19,362,518.5 | 696,938.5 | 7,776,645.9 | 64,846,408.5 |
| thereof gross forborne exposure | 2,869,198 | - | - | 30,186 | 2,899,384 |
| Performing exposure | 34,252,353 | 19,359,815 | 696,938 | 7,341,175 | 61,650,281 |
| thereof performing forborne exposure | 1,389,798 | - | - | 12,815 | 1,402,613 |
| Credit risk provisions for performing exposure | (616,076) | (3,612) | - | (86,736) | (706,424) |
| thereof credit risk provisions for performing forborne exposure | (65,902) | - | - | - | (65,902) |
| Non-performing exposure | 2,757,953 | 2,704 | - | 435,471 | 3,196,127 |
| thereof non-performing forborne exposure | 1,479,400 | - | - | 17,371 | 1,496,771 |
| Credit risk provisions for non-performing exposure | (1,953,888) | - | - | (264,423) | (2,218,311) |
| thereof credit risk provisions for non-performing forborne exposure | (955,255) | - | - | (174) | (955,429) |
| Net book value for forborne exposure | 1,848,041 | - | - | 30,013 | 1,878,054 |

39. RISK MANAGEMENT (continued)
39.5. CREDIT RISK (continued)

| In RON thousand | | | | | Bank |
|---|-----------------------|------------------|-------------------------------|------------------------|-------------|
| | Loans and receivables | Financial assets | Other balance-sheet positions | Contingent liabilities | Total |
| As of 31 December 2016 | | | | | |
| Gross exposure | 35,195,535 | 17,612,241 | 153,456 | 7,708,249 | 60,669,481 |
| thereof gross forborne exposure | 2,885,260 | - | - | 13,244 | 2,898,504 |
| Performing exposure | 31,275,529 | 17,610,781 | 153,456 | 7,336,918 | 56,376,684 |
| thereof performing forborne exposure | 1,491,251 | - | - | 9,796 | 1,501,047 |
| Credit risk provisions for performing exposure | (582,690) | (3,460) | - | (57,372) | (643,522) |
| thereof credit risk provisions for performing forborne exposure | (33,537) | - | - | - | (33,537) |
| Non-performing exposure | 3,920,006 | 1,460 | - | 371,331 | 4,292,797 |
| thereof non-performing forborne exposure | 1,394,008 | - | - | 3,448 | 1,397,456 |
| Credit risk provisions for non-performing exposure | (2,798,922) | - | - | (167,942) | (2,966,864) |
| thereof credit risk provisions for non-performing forborne exposure | (846,326) | - | - | 629 | (845,697) |
| Net book value for forborne exposure | 2,005,397 | - | - | 13,873 | 2,019,269 |

Types of forbearance exposure

| In RON thousand | Group | | |
|-------------------------------|-------------------------|--------------------------------------|--------------|
| | Gross forborne exposure | Modification in terms and conditions | Refinancing |
| As of 31 December 2017 | | | |
| Loans and receivables | 2,917,784 | 2,914,814 | 2,971 |
| Financial assets | - | - | - |
| Contingent liabilities | 30,186 | 30,179 | 8 |
| Total | 2,947,971 | 2,944,992 | 2,978 |

| In RON thousand | Group | | |
|-------------------------------|-------------------------|--------------------------------------|-------------|
| | Gross forborne exposure | Modification in terms and conditions | Refinancing |
| As of 31 December 2016 | | | |
| Loans and receivables | 2,969,573 | 2,969,014 | 558 |
| Financial assets | - | - | - |
| Contingent liabilities | 13,244 | 13,244 | - |
| Total | 2,982,817 | 2,982,258 | 558 |

| In RON thousand | Bank | | |
|-------------------------------|-------------------------|--------------------------------------|--------------|
| | Gross forborne exposure | Modification in terms and conditions | Refinancing |
| As of 31 December 2017 | | | |
| Loans and receivables | 2,869,198 | 2,866,286 | 2,912 |
| Financial assets | - | - | - |
| Contingent liabilities | 30,186 | 30,179 | 8 |
| Total | 2,899,384 | 2,896,464 | 2,920 |

NOTES TO THE FINANCIAL STATEMENTS

Consolidated and Separate for the year ended 31 December 2017

39. RISK MANAGEMENT (continued)

39.5. CREDIT RISK (continued)

| In RON thousand | Bank | | |
|-------------------------------|-------------------------|--------------------------------------|-------------|
| | Gross forborne exposure | Modification in terms and conditions | Refinancing |
| As of 31 December 2016 | | | |
| Loans and receivables | 2,885,260 | 2,884,701 | 558 |
| Financial assets | - | - | - |
| Contingent liabilities | 13,244 | 13,244 | - |
| Total | 2,898,504 | 2,897,945 | 558 |

Collaterals

Main types of collateral

The following types of collateral are accepted:

- real estate: comprises residential and commercial real estate;
- financial collateral: such as securities, cash deposits and life insurance policies;
- guarantees: given by sovereigns, public sector entities, financial institutes, companies and individuals. All guarantors must have a minimum credit rating, which is reviewed annually.
- movables: such as equipment, investment goods, machineries and motor vehicles;
- claims and rights: such as account receivables of trade, leasehold rights and shares in a company's capital.

The following tables compare the credit risk exposure and allocated collateral broken down by business segments.

| In RON thousand, as of 31 Dec 2017 | Group | | | | | |
|--------------------------------------|----------------------|-------------------|---|-------------------|------------------|--|
| | Credit risk exposure | Collateral total | Collateral and other credit risk mitigation | | | Credit risk exposure net of collateral |
| | | | Guarantees | Real estate | Other | |
| RET_BCR - Retail | 23,141,509 | 12,459,187 | 3,814,788 | 8,422,632 | 221,768 | 10,682,322 |
| SME_BCR - SME | 6,192,083 | 2,850,323 | 178,699 | 1,073,170 | 1,598,455 | 3,341,760 |
| LLC_BCR - Local Large Corporates | 3,795,050 | 1,060,762 | 133,921 | 383,531 | 543,309 | 2,734,289 |
| PS_BCR - Public Sector | 5,761,207 | 619,581 | 362,129 | 20,255 | 237,197 | 5,141,625 |
| GLC_BCR - Group Large Corporates | 4,665,442 | 626,240 | 460,457 | 120,341 | 45,442 | 4,039,202 |
| CRE_BCR - Commercial Real Estate | 1,433,090 | 1,009,886 | - | 997,753 | 12,133 | 423,204 |
| GMT_BCR - GM Trading | 1,952,962 | 1,826,260 | - | - | 1,826,260 | 126,702 |
| GMFI_BCR - GM Financial Institutions | 552,710 | 355,415 | 352,736 | - | 2,679 | 197,295 |
| ALM_BCR - ALM | 19,795,986 | 68,579 | - | - | 68,579 | 19,727,407 |
| CC_BCR - Corporate Center | 853,106 | 435,957 | - | - | 435,957 | 417,150 |
| Total | 68,143,146 | 21,312,190 | 5,302,729 | 11,017,682 | 4,991,779 | 46,830,956 |

NOTES TO THE FINANCIAL STATEMENTS

Consolidated and Separate for the year ended 31 December 2017

39. RISK MANAGEMENT (continued)

39.5. CREDIT RISK (continued)

| In RON thousand, as of 31 Dec 2016 | | | | | | |
|--------------------------------------|----------------------|-------------------|---|-------------------|------------------|--|
| | Credit risk exposure | Collateral total | Collateral and other credit risk mitigation | | | Group |
| | | | Guarantees | Real estate | Other | Credit risk exposure net of collateral |
| | | | | | | |
| RET_BCR - Retail | 22,865,804 | 11,908,094 | 3,721,963 | 7,970,861 | 215,270 | 10,957,710 |
| SME_BCR - SME | 5,395,862 | 2,753,483 | 78,224 | 1,151,903 | 1,523,357 | 2,642,379 |
| LLC_BCR - Local Large Corporates | 5,385,021 | 1,266,190 | 93,129 | 528,039 | 645,023 | 4,118,831 |
| PS_BCR - Public Sector | 6,325,284 | 4,836,081 | 397,831 | 25,968 | 4,412,281 | 1,489,204 |
| GLC_BCR - Group Large Corporates | 3,690,207 | 532,058 | 199,797 | 194,718 | 137,542 | 3,158,149 |
| CRE_BCR - Commercial Real Estate | 1,684,387 | 1,143,049 | - | 1,139,643 | 3,405 | 541,338 |
| GMT_BCR - GM Trading | 1,077,462 | 8,237 | - | - | 8,237 | 1,069,225 |
| GMFI_BCR - GM Financial Institutions | 180,331 | 14,359 | - | - | 14,359 | 165,972 |
| ALM_BCR - ALM | 17,114,786 | 68,193 | - | - | 68,193 | 17,046,593 |
| CC_BCR - Corporate Center | 528,318 | 658 | - | 658 | - | 527,660 |
| Total | 64,247,463 | 22,530,402 | 4,490,944 | 11,011,791 | 7,027,668 | 41,717,061 |

| In RON thousand, as of 31 Dec 2017 | | | | | | |
|--------------------------------------|----------------------|-------------------|---|-------------------|------------------|--|
| | Credit risk exposure | Collateral total | Collateral and other credit risk mitigation | | | Bank |
| | | | Guarantees | Real estate | Other | Credit risk exposure net of collateral |
| | | | | | | |
| RET_BCR - Retail | 21,108,720 | 12,382,086 | 3,814,788 | 8,378,255 | 189,043 | 8,726,634 |
| SME_BCR - SME | 4,395,853 | 1,337,172 | 126,789 | 980,901 | 229,482 | 3,058,681 |
| LLC_BCR - Local Large Corporates | 3,815,154 | 1,060,762 | 133,921 | 383,531 | 543,309 | 2,754,392 |
| PS_BCR - Public Sector | 5,761,207 | 619,581 | 362,129 | 20,255 | 237,197 | 5,141,625 |
| GLC_BCR - Group Large Corporates | 4,665,442 | 626,240 | 460,457 | 120,341 | 45,442 | 4,039,202 |
| CRE_BCR - Commercial Real Estate | 1,433,090 | 1,009,886 | - | 997,753 | 12,133 | 423,204 |
| GMT_BCR - GM Trading | 1,952,962 | 1,826,260 | - | - | 1,826,260 | 126,702 |
| GMFI_BCR - GM Financial Institutions | 558,395 | 360,711 | 352,736 | - | 7,975 | 197,685 |
| ALM_BCR - ALM | 20,289,418 | 250,906 | - | - | 250,906 | 20,038,512 |
| CC_BCR - Corporate Center | 866,168 | 435,957 | - | - | 435,957 | 430,211 |
| Total | 64,846,409 | 19,909,560 | 5,250,819 | 10,881,037 | 3,777,704 | 44,936,848 |

39. RISK MANAGEMENT (continued)
39.5. CREDIT RISK (continued)

| In RON thousand, as of 31 Dec 2016 | | | | | | Bank |
|--------------------------------------|----------------------|-------------------|---|-------------------|------------------|--|
| | Credit risk exposure | Collateral total | Collateral and other credit risk mitigation | | | Credit risk exposure net of collateral |
| | | | Guarantees | Real estate | Other | |
| RET_BCR - Retail | 20,370,617 | 11,793,287 | 3,721,963 | 7,902,086 | 169,238 | 8,577,331 |
| SME_BCR - SME | 3,786,538 | 1,523,151 | 46,710 | 1,057,029 | 419,412 | 2,263,387 |
| LLC_BCR - Local Large Corporates | 5,404,967 | 1,266,190 | 93,129 | 528,039 | 645,023 | 4,138,777 |
| PS_BCR - Public Sector | 6,326,343 | 4,836,081 | 397,831 | 25,968 | 4,412,281 | 1,490,262 |
| GLC_BCR - Group Large Corporates | 3,690,207 | 532,058 | 199,797 | 194,718 | 137,542 | 3,158,149 |
| CRE_BCR - Commercial Real Estate | 914,932 | 1,143,049 | - | 1,139,643 | 3,405 | (228,117) |
| GMT_BCR - GM Trading | 1,077,462 | 8,237 | - | - | 8,237 | 1,069,225 |
| GMFI_BCR - GM Financial Institutions | 312,921 | 15,528 | - | - | 15,528 | 297,393 |
| ALM_BCR - ALM | 18,252,037 | 1,187,388 | - | - | 1,187,388 | 17,064,649 |
| CC_BCR - Corporate Center | 533,457 | - | - | - | - | 533,457 |
| Total | 60,669,481 | 22,304,967 | 4,459,430 | 10,847,483 | 6,998,054 | 38,364,514 |

Loans to Customers breakdown by segment and coverage ratio with collaterals

| In RON thousand, as of 31 Dec 2017 | | | | | | Group |
|--|------------------------------|--------------------------|------------------------------|--------------------------|------------------------------|--------------------------|
| | Over-collateralised assets | | Under-collateralised assets | | 100% collateralised assets | |
| | Carrying value of the assets | Fair value of collateral | Carrying value of the assets | Fair value of collateral | Carrying value of the assets | Fair value of collateral |
| Corporate loans | 258,871,016 | 316,987,934 | 5,215,163,607 | 1,330,854,071 | 7,217,318 | 7,217,318 |
| Loans to individuals - consumer loans | 3,477,007 | 9,630,980 | 4,665,377,151 | 227,046,644 | - | - |
| Loans to individuals - entrepreneurs (SME and Micro) | 465,003,715 | 807,056,565 | 3,811,444,686 | 1,287,035,328 | 1,142,527,475 | 1,142,527,475 |
| Mortgage loans | 5,219,644,901 | 8,212,435,468 | 9,996,784,425 | 7,090,875,030 | 450,768 | 450,768 |
| Public Authorities | - | - | 3,202,957,489 | 333,955,825 | - | - |
| Financial institutions | - | - | 15,213,671 | - | - | - |
| State Owned Enterprises | 4,704,309 | 8,602,704 | 556,329,836 | 79,102,122 | - | - |
| Real estate | 28,743,701 | 49,866,750 | 1,370,818,234 | 969,099,499 | - | - |
| Other (CC, ALM, Treasury) | 68,878,702 | 144,450,700 | 173,919,234 | - | - | - |

| In RON thousand, as of 31 Dec 2016 | | | | | | Group |
|--|------------------------------|--------------------------|------------------------------|--------------------------|------------------------------|--------------------------|
| | Over-collateralised assets | | Under-collateralised assets | | 100% collateralised assets | |
| | Carrying value of the assets | Fair value of collateral | Carrying value of the assets | Fair value of collateral | Carrying value of the assets | Fair value of collateral |
| Corporate loans | 574,668,713 | 947,629,766 | 5,188,405,247 | 623,094,229 | - | - |
| Loans to individuals - consumer loans | 3,814,544 | 10,122,311 | 4,554,853,437 | 602,900 | - | - |
| Loans to individuals - entrepreneurs (SME and Micro) | 691,810,148 | 1,361,503,189 | 3,273,051,567 | 1,082,992,450 | 937,213,000 | 937,213,000 |
| Mortgage loans | 3,235,153,052 | 5,381,117,501 | 11,370,006,632 | 8,927,383,573 | - | - |
| Public Authorities | 94,529,124 | 104,738,663 | 3,754,432,297 | 2,866,034,633 | - | - |
| Financial institutions | - | - | 31,228,429 | 12,141,419 | - | - |
| State Owned Enterprises | 60,915,379 | 105,073,586 | 434,191,929 | 172,769,484 | - | - |
| Real estate | 464,207,447 | 668,870,889 | 1,036,727,599 | 684,705,269 | - | - |
| Other (CC, ALM, Treasury) | 68,193,163 | 140,774,100 | 109,770,632 | - | - | - |

39. RISK MANAGEMENT (continued)
39.5. CREDIT RISK (continued)

| In RON thousand, as of 31 Dec 2017 | | | | | | |
|--|------------------------------|--------------------------|------------------------------|--------------------------|------------------------------|--------------------------|
| | Over-collateralised assets | | Under-collateralised assets | | 100% collateralised assets | |
| | Carrying value of the assets | Fair value of collateral | Carrying value of the assets | Fair value of collateral | Bank | |
| | | | | | Carrying value of the assets | Fair value of collateral |
| Corporate loans | 180,577,796 | 244,663,757 | 5,159,343,598 | 1,210,959,806 | 7,217,318 | 7,217,318 |
| Loans to individuals - consumer loans | 3,335,747 | 9,374,677 | 4,662,823,929 | 155,644 | - | - |
| Loans to individuals - entrepreneurs (SME and Micro) | 464,885,960 | 806,619,277 | 3,464,059,335 | 1,059,572,384 | 3,936,475 | 3,936,475 |
| Mortgage loans | 5,090,171,301 | 7,965,193,663 | 9,850,613,997 | 7,062,764,068 | 450,768 | 450,768 |
| Public Authorities | - | - | 3,202,957,489 | 333,955,825 | - | - |
| Financial institutions | - | - | 15,213,671 | - | - | - |
| State Owned Enterprises | 4,704,309 | 8,602,704 | 556,329,836 | 79,102,122 | - | - |
| Real estate | 28,743,701 | 49,866,750 | 1,370,818,234 | 969,099,499 | - | - |
| Other (CC, ALM, Treasury) | 68,878,702 | 144,450,700 | 173,919,234 | - | - | - |
| In RON thousand, as of 31 Dec 2016 | | | | | | |
| | Over-collateralised assets | | Under-collateralised assets | | 100% collateralised assets | |
| | Carrying value of the assets | Fair value of collateral | Carrying value of the assets | Fair value of collateral | Bank | |
| | | | | | Carrying value of the assets | Fair value of collateral |
| Corporate loans | 571,032,577 | 895,653,671 | 5,109,158,286 | 546,829,765 | - | - |
| Loans to individuals - consumer loans | 3,680,028 | 9,878,245 | 4,553,015,673 | 602,900 | - | - |
| Loans to individuals - entrepreneurs (SME and Micro) | 691,684,229 | 1,360,881,606 | 2,903,769,948 | 882,826,042 | - | - |
| Mortgage loans | 3,076,407,712 | 5,084,657,273 | 11,207,541,748 | 8,912,258,082 | - | - |
| Public Authorities | 94,529,124 | 104,738,663 | 3,754,432,297 | 2,866,034,633 | - | - |
| Financial institutions | - | - | 31,228,429 | 12,141,419 | - | - |
| State Owned Enterprises | 60,915,379 | 105,073,586 | 434,191,929 | 172,769,484 | - | - |
| Real estate | 464,207,447 | 668,870,889 | 1,036,727,599 | 684,705,269 | - | - |
| Other (CC, ALM, Treasury) | 68,193,163 | 140,774,100 | 109,770,632 | - | - | - |

39. RISK MANAGEMENT (continued)
39.5. CREDIT RISK (continued)
Credit risk exposure by financial instrument and collateral

Credit risk exposure by financial instrument and collateral

In RON thousand, as of 31 Dec 2017

| | Credit risk exposure | Collateral total | Collateral and other credit risk mitigation | | | Credit risk exposure net of collateral | Neither past due nor impaired | Past due but not impaired | Group | |
|---|----------------------|-------------------|---|-------------------|------------------|--|-------------------------------|---------------------------|------------------|--|
| | | | Guarantees | Real estate | Other | | | | Impaired | |
| | | | | | | | | | | |
| Other demand deposits | 679,924 | 325,055 | - | - | 325,055 | 354,868 | 679,924 | - | - | |
| Loans and advances to credit institutions | 2,221,260 | 1,936,436 | - | - | 1,936,436 | 284,824 | 2,221,260 | - | - | |
| Loans and advances to customers | 36,218,507 | 18,041,883 | 4,896,494 | 10,905,382 | 2,240,007 | 18,176,623 | 30,682,404 | 2,645,266 | 2,890,837 | |
| Held to maturity | 14,760,506 | - | - | - | - | 14,760,506 | 14,760,506 | - | - | |
| Trading assets | 63,245 | - | - | - | - | 63,245 | 63,245 | - | - | |
| At fair value through profit or loss | 15,131 | - | - | - | - | 15,131 | 15,131 | - | - | |
| Available for sale | 6,357,528 | - | - | - | - | 6,357,528 | 6,335,252 | - | 22,276 | |
| Positive fair value of derivative financial instruments | 41,449 | - | - | - | - | 41,449 | 41,449 | - | - | |
| Contingent credit liabilities | 7,785,596 | 1,008,815 | 406,235 | 112,300 | 490,280 | 6,776,781 | 7,775,653 | 9,943 | - | |
| Total | 68,143,146 | 21,312,190 | 5,302,729 | 11,017,682 | 4,991,779 | 46,830,956 | 62,574,824 | 2,655,209 | 2,913,112 | |

In RON thousand, as of 31 Dec 2016

| | Credit risk exposure | Collateral total | Collateral and other credit risk mitigation | | | Credit risk exposure net of collateral | Neither past due nor impaired | Past due but not impaired | Group | |
|---|----------------------|-------------------|---|-------------------|------------------|--|-------------------------------|---------------------------|------------------|--|
| | | | Guarantees | Real estate | Other | | | | Impaired | |
| | | | | | | | | | | |
| Other demand deposits | 155,920 | - | - | - | - | 155,920 | 155,920 | - | - | |
| Loans and advances to credit institutions | 557,466 | 12,141 | - | - | 12,141 | 545,325 | 557,466 | - | - | |
| Loans and advances to customers | 35,884,582 | 20,182,132 | 4,455,830 | 10,706,951 | 5,019,350 | 15,702,450 | 29,122,744 | 2,632,683 | 4,129,155 | |
| Held to maturity | 13,907,661 | 76,310 | - | 30,280 | 46,029 | 13,831,351 | 13,907,661 | - | - | |
| Trading assets | 559,176 | - | - | - | - | 559,176 | 559,176 | - | - | |
| At fair value through profit or loss | 15,319 | - | - | - | - | 15,319 | 15,319 | - | - | |
| Available for sale | 5,376,652 | - | - | - | - | 5,376,652 | 5,374,321 | 2,331 | - | |
| Positive fair value of derivative financial instruments | 73,486 | - | - | - | - | 73,486 | 73,486 | - | - | |
| Contingent credit liabilities | 7,717,203 | 2,259,819 | 35,113 | 274,559 | 1,950,147 | 5,457,384 | 7,707,013 | 10,190 | - | |
| Total | 64,247,463 | 22,530,402 | 4,490,944 | 11,011,791 | 7,027,668 | 41,717,061 | 57,473,104 | 2,645,203 | 4,129,155 | |

39. RISK MANAGEMENT (continued)
39.5. CREDIT RISK (continued)

| In RON thousand, as of 31 Dec 2017 | | | | | | | | Bank | |
|---|----------------------|-------------------|---|-------------------|------------------|--|-------------------------------|---------------------------|------------------|
| | Credit risk exposure | Collateral total | Collateral and other credit risk mitigation | | | Credit risk exposure net of collateral | Neither past due nor impaired | Past due but not impaired | Impaired |
| | | | Guarantees | Real estate | Other | | | | |
| Other demand deposits | 655,489 | 325,055 | - | - | 325,055 | 330,434 | 655,489 | - | - |
| Loans and advances to credit institutions | 2,426,183 | 1,936,436 | - | - | 1,936,436 | 489,748 | 2,426,183 | - | - |
| Loans and advances to customers | 34,584,122 | 16,645,851 | 4,847,426 | 10,775,249 | 1,023,176 | 17,938,271 | 29,513,535 | 2,363,744 | 2,706,843 |
| Held to maturity | 13,379,340 | - | - | - | - | 13,379,340 | 13,379,340 | - | - |
| Trading assets | 63,245 | - | - | - | - | 63,245 | 63,245 | - | - |
| At fair value through profit or loss | 15,131 | - | - | - | - | 15,131 | 15,131 | - | - |
| Available for sale | 5,904,802 | - | - | - | - | 5,904,802 | 5,902,664 | - | 2,138 |
| Positive fair value of derivative financial instruments | 41,449 | - | - | - | - | 41,449 | 41,449 | - | - |
| Contingent credit liabilities | 7,776,646 | 1,002,218 | 403,394 | 105,787 | 493,037 | 6,774,428 | 7,776,646 | - | - |
| Total | 64,846,409 | 19,909,560 | 5,250,819 | 10,881,037 | 3,777,704 | 44,936,848 | 59,773,684 | 2,363,744 | 2,708,981 |

| In RON thousand, as of 31 Dec 2016 | | | | | | | | Bank | |
|---|----------------------|-------------------|---|-------------------|------------------|--|-------------------------------|---------------------------|------------------|
| | Credit risk exposure | Collateral total | Collateral and other credit risk mitigation | | | Credit risk exposure net of collateral | Neither past due nor impaired | Past due but not impaired | Impaired |
| | | | Guarantees | Real estate | Other | | | | |
| Other demand deposits | 79,970 | - | - | - | - | 79,970 | 79,970 | - | - |
| Loans and advances to credit institutions | 656,050 | 12,141 | - | - | 12,141 | 643,909 | 656,050 | - | - |
| Loans and advances to customers | 34,539,486 | 20,038,857 | 4,426,418 | 10,576,277 | 5,036,162 | 14,500,628 | 28,248,071 | 2,451,945 | 3,839,470 |
| Held to maturity | 12,389,657 | - | - | - | - | 12,389,657 | 12,389,657 | - | - |
| Trading assets | 559,176 | - | - | - | - | 559,176 | 559,176 | - | - |
| At fair value through profit or loss | 15,319 | - | - | - | - | 15,319 | 15,319 | - | - |
| Available for sale | 4,648,089 | - | - | - | - | 4,648,089 | 4,645,758 | 2,331 | - |
| Positive fair value of derivative financial instruments | 73,486 | - | - | - | - | 73,486 | 73,486 | - | - |
| Contingent credit liabilities | 7,708,249 | 2,253,968 | 33,012 | 271,205 | 1,949,751 | 5,454,281 | 7,708,249 | - | - |
| Total | 60,669,481 | 22,304,967 | 4,459,430 | 10,847,483 | 6,998,054 | 38,364,514 | 54,375,736 | 2,454,275 | 3,839,470 |

In the case of contingent liabilities, the impaired credit risk exposure corresponds to positions for which provisions for credit risks were created.

39. RISK MANAGEMENT (continued)

39.5. CREDIT RISK (continued)

Credit risk exposure past due and not covered by specific allowances by financial instrument and collateralization

Credit risk exposure past due and not covered by specific provisions by Basel II exposure class and collateralisation

In RON thousand, as of 31 Dec 2017

| | Credit risk exposure past due | | | | | | Thereof collateralised | | | | | Group |
|---|-------------------------------|--------------------|---------------------|---------------------|----------------------|---------------|----------------------------|-----------------------------|-----------------------------|------------------------------|-------------------------------------|------------|
| | Total | Thereof | Thereof | Thereof | Thereof | Total | Thereof 1-30 days past due | Thereof 31-60 days past due | Thereof 61-90 days past due | Thereof 91-180 days past due | Thereof more than 180 days past due | |
| | | 1-30 days past due | 31-60 days past due | 61-90 days past due | 91-180 days past due | | | | | | | |
| Other demand deposits | - | - | - | - | - | - | - | - | - | - | - | - |
| Loans and advances to credit institutions | - | - | - | - | - | - | - | - | - | - | - | - |
| Loans and advances to customers | 2,645,266 | 2,284,039 | 216,075 | 87,932 | 30,263 | 26,957 | 1,830,075 | 1,606,694 | 150,894 | 56,374 | 15,495 | 619 |
| Debt instruments - Held to maturity | - | - | - | - | - | - | - | - | - | - | - | - |
| Debt instruments - Trading assets | - | - | - | - | - | - | - | - | - | - | - | - |
| Debt instruments - At fair value through profit or loss | - | - | - | - | - | - | - | - | - | - | - | - |
| Debt instruments - Available for sale | - | - | - | - | - | - | - | - | - | - | - | - |
| Positive fair value of derivative financial instr. | - | - | - | - | - | - | - | - | - | - | - | - |
| Contingent liabilities | 9,943 | 9,755 | 188 | - | - | - | - | - | - | - | - | - |
| Total | 2,655,209 | 2,293,794 | 216,264 | 87,932 | 30,263 | 26,957 | 1,830,075 | 1,606,694 | 150,894 | 56,374 | 15,495 | 619 |

In RON thousand, as of 31 Dec 2016

| | Credit risk exposure past due | | | | | | Thereof collateralised | | | | | Group |
|---|-------------------------------|--------------------|---------------------|---------------------|----------------------|--------------|----------------------------|-----------------------------|-----------------------------|------------------------------|-------------------------------------|--------------|
| | Total | Thereof | Thereof | Thereof | Thereof | Total | Thereof 1-30 days past due | Thereof 31-60 days past due | Thereof 61-90 days past due | Thereof 91-180 days past due | Thereof more than 180 days past due | |
| | | 1-30 days past due | 31-60 days past due | 61-90 days past due | 91-180 days past due | | | | | | | |
| Other demand deposits | - | - | - | - | - | - | - | - | - | - | - | - |
| Loans and advances to credit institutions | - | - | - | - | - | - | - | - | - | - | - | - |
| Loans and advances to customers | 2,632,683 | 2,271,980 | 195,794 | 93,576 | 65,112 | 6,221 | 1,769,096 | 1,535,527 | 134,357 | 54,719 | 43,357 | 1,136 |
| Debt instruments - Held to maturity | - | - | - | - | - | - | - | - | - | - | - | - |
| Debt instruments - Trading assets | - | - | - | - | - | - | - | - | - | - | - | - |
| Debt instruments - At fair value through profit or loss | - | - | - | - | - | - | - | - | - | - | - | - |
| Debt instruments - Available for sale | 2,331 | - | - | - | - | 2,331 | - | - | - | - | - | - |
| Positive fair value of derivative financial instr. | - | - | - | - | - | - | - | - | - | - | - | - |
| Contingent liabilities | 10,190 | 10,190 | - | - | - | - | - | - | - | - | - | - |
| Total | 2,645,203 | 2,282,170 | 195,794 | 93,576 | 65,112 | 8,552 | 1,769,096 | 1,535,527 | 134,357 | 54,719 | 43,357 | 1,136 |

39. RISK MANAGEMENT (continued)
39.5. CREDIT RISK (continued)

| In RON thousand, as of 31 Dec 2017 | | | | | | | | | | | Bank | |
|---|-------------------------------|----------------------------|-----------------------------|-----------------------------|------------------------------|-------------------------------------|------------------------|----------------------------|-----------------------------|-----------------------------|------------------------------|-------------------------------------|
| | Credit risk exposure past due | | | | | | Thereof collateralised | | | | | |
| | Total | Thereof 1-30 days past due | Thereof 31-60 days past due | Thereof 61-90 days past due | Thereof 91-180 days past due | Thereof more than 180 days past due | Total | Thereof 1-30 days past due | Thereof 31-60 days past due | Thereof 61-90 days past due | Thereof 91-180 days past due | Thereof more than 180 days past due |
| Other demand deposits | - | - | - | - | - | - | - | - | - | - | - | - |
| Loans and advances to credit institutions | - | - | - | - | - | - | - | - | - | - | - | - |
| Loans and advances to customers | 2,363,744 | 2,052,274 | 174,192 | 80,728 | 29,811 | 26,739 | 1,578,782 | 1,398,303 | 114,628 | 50,088 | 15,231 | 532 |
| Debt instruments - Held to maturity | - | - | - | - | - | - | - | - | - | - | - | - |
| Debt instruments - Trading assets | - | - | - | - | - | - | - | - | - | - | - | - |
| Debt instruments - At fair value through profit or loss | - | - | - | - | - | - | - | - | - | - | - | - |
| Debt instruments - Available for sale | - | - | - | - | - | - | - | - | - | - | - | - |
| Positive fair value of derivative financial instr. | - | - | - | - | - | - | - | - | - | - | - | - |
| Contingent liabilities | - | - | - | - | - | - | - | - | - | - | - | - |
| Total | 2,363,744 | 2,052,274 | 174,192 | 80,728 | 29,811 | 26,739 | 1,578,782 | 1,398,303 | 114,628 | 50,088 | 15,231 | 532 |

| In RON thousand, as of 31 Dec 2016 | | | | | | | | | | | Bank | |
|---|-------------------------------|----------------------------|-----------------------------|-----------------------------|------------------------------|-------------------------------------|------------------------|----------------------------|-----------------------------|-----------------------------|------------------------------|-------------------------------------|
| | Credit risk exposure past due | | | | | | Thereof collateralised | | | | | |
| | Total | Thereof 1-30 days past due | Thereof 31-60 days past due | Thereof 61-90 days past due | Thereof 91-180 days past due | Thereof more than 180 days past due | Total | Thereof 1-30 days past due | Thereof 31-60 days past due | Thereof 61-90 days past due | Thereof 91-180 days past due | Thereof more than 180 days past due |
| Other demand deposits | - | - | - | - | - | - | - | - | - | - | - | - |
| Loans and advances to credit institutions | - | - | - | - | - | - | - | - | - | - | - | - |
| Loans and advances to customers | 2,451,945 | 2,129,117 | 173,106 | 80,036 | 63,918 | 5,768 | 1,616,623 | 1,413,285 | 115,267 | 44,481 | 42,573 | 1,017 |
| Debt instruments - Held to maturity | - | - | - | - | - | - | - | - | - | - | - | - |
| Debt instruments - Trading assets | - | - | - | - | - | - | - | - | - | - | - | - |
| Debt instruments - At fair value through profit or loss | - | - | - | - | - | - | - | - | - | - | - | - |
| Debt instruments - Available for sale | 2,331 | - | - | - | - | 2,331 | - | - | - | - | - | - |
| Positive fair value of derivative financial instr. | - | - | - | - | - | - | - | - | - | - | - | - |
| Contingent liabilities | - | - | - | - | - | - | - | - | - | - | - | - |
| Total | 2,454,275 | 2,129,117 | 173,106 | 80,036 | 63,918 | 8,098 | 1,616,623 | 1,413,285 | 115,267 | 44,481 | 42,573 | 1,017 |

There are no overdue amounts registered on other demand deposits.

Loans and receivables to customers

This section presents the customer loan book excluding loans to financial institutions and commitments. The results depicted in the tables below are divided by reporting segment and risk category.

Breakdown of loans and receivables to customers

On the following pages the loans and receivables to customers are categorized as:

- business segment and risk category;
- non-performing loans and receivables to customers by business segment and coverage by loan loss allowances and collateral;

39. RISK MANAGEMENT (continued)
39.5. CREDIT RISK (continued)

- business segment and currency.

Loans and receivables to customers by business segment and risk category

| In RON thousand, as of 31 Dec 2017 | | | | | Group |
|------------------------------------|-------------------|----------------------|----------------|------------------|----------------------|
| | Low risk | Management attention | Substandard | Non-performing | Gross customer loans |
| Retail | 15,179,596 | 3,657,586 | 122,519 | 1,325,117 | 20,284,817 |
| Corporates | 10,152,518 | 3,472,009 | 418,752 | 1,610,893 | 15,654,173 |
| Group Markets | 14,492 | 910 | 0 | - | 15,402 |
| Asset/Liability Management | 71,638 | - | - | - | 71,638 |
| BCR Corporate Center | 55,625 | 130,566 | 0 | 6,286 | 192,477 |
| Total | 25,473,869 | 7,261,071 | 541,272 | 2,942,296 | 36,218,507 |

| In RON thousand, as of 31 Dec 2016 | | | | | Group |
|------------------------------------|-------------------|----------------------|----------------|------------------|----------------------|
| | Low risk | Management attention | Substandard | Non-performing | Gross customer loans |
| Retail | 14,156,752 | 3,698,025 | 129,448 | 1,635,620 | 19,619,845 |
| Corporates | 9,862,185 | 3,435,033 | 193,169 | 2,576,167 | 16,066,554 |
| Group Markets | 18,287 | 6,426 | - | 8 | 24,720 |
| Asset/Liability Management | 69,136 | 4,358 | - | - | 73,495 |
| BCR Corporate Center | 4,560 | 94,750 | - | 658 | 99,968 |
| Total | 24,110,919 | 7,238,592 | 322,617 | 4,212,453 | 35,884,582 |

| In RON thousand, as of 31 Dec 2017 | | | | | Bank |
|------------------------------------|-------------------|----------------------|----------------|------------------|----------------------|
| | Low risk | Management attention | Substandard | Non-performing | Gross customer loans |
| Retail | 15,009,438 | 3,657,586 | 122,519 | 1,230,589 | 20,020,131 |
| Corporates | 9,244,635 | 2,853,293 | 390,328 | 1,521,078 | 14,009,334 |
| Group Markets | 14,492 | 910 | 0 | - | 15,402 |
| Asset/Liability Management | 334,528 | 12,251 | - | - | 346,778 |
| BCR Corporate Center | 55,625 | 130,566 | 0 | 6,286 | 192,477 |
| Total | 24,658,718 | 6,654,605 | 512,847 | 2,757,953 | 34,584,122 |

| In RON thousand, as of 31 Dec 2016 | | | | | Bank |
|------------------------------------|-------------------|----------------------|----------------|------------------|----------------------|
| | Low risk | Management attention | Substandard | Non-performing | Gross customer loans |
| Retail | 13,980,155 | 3,698,025 | 129,448 | 1,498,717 | 19,306,345 |
| Corporates | 8,272,756 | 3,039,643 | 164,684 | 2,421,281 | 13,898,364 |
| Group Markets | 18,287 | 6,426 | - | 8 | 24,720 |
| Asset/Liability Management | 888,058 | 322,688 | - | - | 1,210,746 |
| BCR Corporate Center | 4,560 | 94,750 | - | 0 | 99,310 |
| Total | 23,163,815 | 7,161,532 | 294,132 | 3,920,006 | 34,539,486 |

In the following tables, the non-performing loans and receivables to customers divided by reporting segment are contrasted with allowances for customer loans (specific and collective allowances) and the collateral for non-performing loans (NPL). The NPL ratio, the NPL coverage ratio

39. RISK MANAGEMENT (continued)
39.5. CREDIT RISK (continued)

(excl. collateral), and the NPL total coverage ratio are also included. The NPL total coverage ratio specifies the coverage of non-performing loans by specific and collective allowances as well as by collateral for non-performing loans.

Non-performing loans and receivables to customers by business segment and coverage by loan loss allowances and collateral

| In RON thousand, as of 31 Dec 2017 | | | | | | | | | | |
|------------------------------------|------------------|----------------------|-------------------|-------------------------------|---------------------|-----------------------|-------------|---------------------------------------|--------------------|--------------------------|
| | Non-performing | Gross customer loans | Carrying amount | Allowances for customer loans | Specific allowances | Collective allowances | NPL ratio | NPL coverage ratio (excl. collateral) | Collateral for NPL | NPL total coverage ratio |
| Retail | 1.325.117 | 20.284.817 | 18.978.117 | (1.306.700) | (1.061.620) | (245.080) | 6.5% | -98.6% | 430.891 | 131.1% |
| Corporate | 1.610.893 | 15.654.173 | 14.243.291 | (1.410.882) | (1.028.282) | (382.600) | 10.3% | -87.6% | 602.156 | 125.0% |
| Group Markets | - | 15.402 | 15.350 | (52) | - | (52) | 0.0% | 0.0% | - | 0.0% |
| Asset/Liability Management | - | 71.638 | 71.526 | (112) | - | (112) | 0.0% | 0.0% | - | 0.0% |
| BCR Corporate Center | 6.286 | 192.477 | 182.599 | (9.878) | - | (9.878) | 3.3% | -157.1% | - | 157.1% |
| Total | 2.942.296 | 36.218.507 | 33.490.883 | (2.727.624) | (2.089.902) | (637.722) | 8.1% | -92.7% | 1.033.047 | 127.8% |

| In RON thousand, as of 31 Dec 2016 | | | | | | | | | | |
|------------------------------------|------------------|----------------------|-------------------|-------------------------------|---------------------|-----------------------|--------------|---------------------------------------|--------------------|--------------------------|
| | Non-performing | Gross customer loans | Carrying amount | Allowances for customer loans | Specific allowances | Collective allowances | NPL ratio | NPL coverage ratio (excl. collateral) | Collateral for NPL | NPL total coverage ratio |
| Retail | 1,635,620 | 19,619,845 | 18,066,455 | (1,553,390) | (1,212,772) | (340,618) | 8.3% | -95.0% | 612,790 | 132.4% |
| Corporate | 2,576,167 | 16,066,554 | 14,029,710 | (2,036,843) | (1,780,459) | (256,384) | 16.0% | -79.1% | 881,533 | 113.3% |
| Group Markets | 8 | 24,720 | 24,297 | (423) | (8) | (415) | 0.0% | -5254.7% | 35 | 5688.6% |
| Asset/Liability Management | - | 73,495 | 73,456 | (38) | - | (38) | 0.0% | 0.0% | - | 0.0% |
| BCR Corporate Center | 658 | 99,968 | 97,215 | (2,753) | (658) | (2,095) | 0.7% | -418.1% | 662 | 518.7% |
| Total | 4,212,453 | 35,884,582 | 32,291,134 | (3,593,447) | (2,993,898) | (599,550) | 11.7% | -85.3% | 1,495,021 | 120.8% |

| In RON thousand, as of 31 Dec 2017 | | | | | | | | | | |
|------------------------------------|------------------|----------------------|-------------------|-------------------------------|---------------------|-----------------------|-------------|---------------------------------------|--------------------|--------------------------|
| | Non-performing | Gross customer loans | Carrying amount | Allowances for customer loans | Specific allowances | Collective allowances | NPL ratio | NPL coverage ratio (excl. collateral) | Collateral for NPL | NPL total coverage ratio |
| Retail | 1,230,589 | 20,020,131 | 18,808,090 | (1,212,041) | (968,791) | (243,250) | 6.1% | -98.5% | 427,318 | 133.2% |
| Corporate | 1,521,078 | 14,009,334 | 12,667,600 | (1,341,734) | (985,097) | (356,637) | 10.9% | -88.2% | 551,626 | 124.5% |
| Group Markets | - | 15,402 | 15,350 | (52) | - | (52) | 0.0% | 0.0% | - | 0.0% |
| Asset/Liability Management | - | 346,778 | 346,666 | (112) | - | (112) | 0.0% | 0.0% | - | 0.0% |
| BCR Corporate Center | 6,286 | 192,477 | 182,599 | (9,878) | - | (9,878) | 3.3% | -157.1% | - | 157.1% |
| Total | 2,757,953 | 34,584,122 | 32,020,306 | (2,563,817) | (1,953,888) | (609,929) | 8.0% | -93.0% | 978,944 | 128.5% |

| In RON thousand, as of 31 Dec 2016 | | | | | | | | | | |
|------------------------------------|------------------|----------------------|-------------------|-------------------------------|---------------------|-----------------------|--------------|---------------------------------------|--------------------|--------------------------|
| | Non-performing | Gross customer loans | Carrying amount | Allowances for customer loans | Specific allowances | Collective allowances | NPL ratio | NPL coverage ratio (excl. collateral) | Collateral for NPL | NPL total coverage ratio |
| Retail | 1,498,717 | 19,306,345 | 17,877,096 | (1,429,249) | (1,090,539) | (338,710) | 7.8% | -95.4% | 573,611 | 133.6% |
| Corporate | 2,421,281 | 13,898,364 | 11,953,193 | (1,945,172) | (1,703,069) | (242,103) | 17.4% | -80.3% | 790,571 | 113.0% |
| Group Markets | 8 | 24,720 | 24,297 | (423) | (8) | (415) | 0.0% | -5254.7% | - | 5254.7% |
| Asset/Liability Management | - | 1,210,746 | 1,210,708 | (38) | - | (38) | 0.0% | 0.0% | - | 0.0% |
| BCR Corporate Center | 0 | 99,310 | 97,215 | (2,095) | (0) | (2,095) | 0.0% | - | - | 665016.2% |
| Total | 3,920,006 | 34,539,486 | 31,162,509 | (3,376,977) | (2,793,616) | (583,361) | 11.3% | -86.1% | 1,364,182 | 120.9% |

The NPL ratio in this section (loans and receivables to customers) is calculated by dividing non-performing loans and receivables by total loans and receivables to customers. Consequently, it differs from the NPE ratio in section 'Credit risk exposure'. Collaterals for non-performing loans mainly consist of real estates.

39. RISK MANAGEMENT (continued)
39.5. CREDIT RISK (continued)
Loans and receivables to customers by business segment and currency

| In RON thousand, as of 31 Dec 2017 | | | | | | Group |
|------------------------------------|-------------------|----------------------|-----------|----------------|------------|----------------------|
| | EUR | CEE-local currencies | CHF | USD | Other | Gross customer loans |
| Retail | 8,493,876 | 11,768,801 | 91 | 21,804 | 246 | 20,284,817 |
| Corporates | 7,382,148 | 7,626,120 | 1 | 645,891 | 14 | 15,654,173 |
| Group Markets | 14,826 | 576 | - | - | - | 15,402 |
| Asset/Liability Management | 2,759 | 68,879 | - | - | - | 71,638 |
| BCR Corporate Center | 8,865 | 183,593 | - | 19 | - | 192,477 |
| Total | 15,902,473 | 19,647,968 | 92 | 667,714 | 260 | 36,218,507 |

| In RON thousand, as of 31 Dec 2016 | | | | | | Group |
|------------------------------------|-------------------|----------------------|------------|----------------|------------|----------------------|
| | EUR | CEE-local currencies | CHF | USD | Other | Gross customer loans |
| Retail | 9,289,764 | 10,296,704 | 237 | 32,873 | 267 | 19,619,845 |
| Corporates | 7,971,236 | 7,185,416 | 1 | 909,888 | 13 | 16,066,554 |
| Group Markets | 14,587 | 10,131 | - | 2 | 0 | 24,720 |
| Asset/Liability Management | 943 | 72,551 | - | - | - | 73,495 |
| BCR Corporate Center | 2,157 | 97,771 | - | 40 | - | 99,968 |
| Total | 17,278,688 | 17,662,573 | 237 | 942,804 | 280 | 35,884,582 |

| In RON thousand, as of 31 Dec 2017 | | | | | | Bank |
|------------------------------------|-------------------|----------------------|-----------|----------------|------------|----------------------|
| | EUR | CEE-local currencies | CHF | USD | Other | Gross customer loans |
| Retail | 8,410,794 | 11,587,201 | 91 | 21,799 | 246 | 20,020,131 |
| Corporates | 6,176,740 | 7,200,369 | 1 | 632,210 | 14 | 14,009,334 |
| Group Markets | 14,826 | 576 | - | - | - | 15,402 |
| Asset/Liability Management | 2,759 | 344,019 | - | - | - | 346,778 |
| BCR Corporate Center | 8,865 | 183,593 | - | 19 | - | 192,477 |
| Total | 14,613,984 | 19,315,758 | 92 | 654,028 | 260 | 34,584,122 |

| In RON thousand, as of 31 Dec 2016 | | | | | | Bank |
|------------------------------------|-------------------|----------------------|------------|----------------|------------|----------------------|
| | EUR | CEE-local currencies | CHF | USD | Other | Gross customer loans |
| Retail | 9,169,171 | 10,103,802 | 237 | 32,868 | 267 | 19,306,345 |
| Corporates | 6,902,041 | 6,105,246 | 1 | 891,064 | 13 | 13,898,364 |
| Group Markets | 14,587 | 10,131 | - | 2 | 0 | 24,720 |
| Asset/Liability Management | 9,565 | 1,201,181 | - | 0 | - | 1,210,746 |
| BCR Corporate Center | 1,499 | 97,771 | - | 40 | - | 99,310 |
| Total | 16,096,863 | 17,518,132 | 237 | 923,974 | 280 | 34,539,486 |

39. RISK MANAGEMENT (continued)**39.6. MARKET RISK****Definition and overview**

Market risk is the risk of loss that may arise due to adverse changes in market prices and to the parameters derived therefrom. These market value changes might appear in the profit and loss account or in the statement of comprehensive income. Market risk is divided into interest rate risk, currency risk, equity risk and commodity risk. This concerns both trading and bank book positions.

Methods and instruments employed

Potential losses from the trading book that may arise from market movements are assessed using the value at risk (VaR). The calculation is done according to the method of historic simulation with a one-sided confidence level of 99%, a holding period of one day and a simulation period of two years. The VaR describes what level of losses may be expected as a maximum at a defined probability – the confidence level – within a certain holding period of the positions under historically observed market conditions.

On the one hand, the confidence level is limited to 99%, and on the other hand, the model takes into account only those market scenarios observed in each case within the simulation period of two years, and calculates the VaR for the current position of the bank on this basis. In order to investigate any extreme market situations beyond this, stress tests are conducted. These events include mainly market movements of low probability.

The VaR model was approved by the Financial Market Authority (FMA) as an internal market risk model to determine the own funds requirements of the trading book of Erste Group pursuant to the Austrian Banking Act.

Methods and instruments of risk mitigation

Market risks are controlled in the trading book by setting several layers of limits. The overall limit on the basis of VaR for the trading book is allocated by the management board within the Risk Appetite Framework while taking into account the risk-bearing capacity and projected earnings.

All market risk activities of the trading book are assigned risk limits that are statistically consistent in their entirety with the VaR overall limit. The VaR limit is assigned in a top-down procedure to the individual trading units. This is done down to the level of the individual trading groups or departments. Limit compliance is verified on a daily basis by the Market and Liquidity Risk unit. On demand limit reports can also be triggered by individual traders or chief traders on an ad hoc basis.

Principles of managing Interest Rate Risk in Banking Book

As an inherent part of its business, BCR is exposed to interest rate risk arising from the characteristics of assets, liabilities and off balance sheet items of the existing balance sheet as well as arising from the expected development of the balance sheet and banking activities.

BCR has four methods which are used to measure interest rate risk in the banking book:

- Sensitivity measures (PVB, CR01) to assess the market value sensitivity of certain portfolios
- Economic value measures (MVoE, EVE) to assess the market value change under certain scenarios
- Earnings at risk measure (NII sensitivity) to assess the impact on operating income of certain scenarios on BCR level. This also comprises valuation impacts on other comprehensive income (OCI).
- Value at Risk based measures used for economic capital allocation under Pillar 2

BCR has in place strategies, policies and practices to manage interest rate risks in accordance with the risk tolerance. All internal and regulatory limits are monitored and reported to senior management.

The strategic steering of interest rate risk exposure is future oriented and based on the forecasted movements of the market variables (primarily interest rates) and business developments over a given – typically medium to long term - planning horizon.

Principles of managing foreign exchange risk

The FX Risk shows the sensitivity of BCR's open FX position to FX rate fluctuations.

39. RISK MANAGEMENT (continued)
39.6 MARKET RISK (continued)

In respect of Trading Book portfolio, BCR policy is to close all open position at the end of each day with Erste Group.

On the Banking Book side the FX position in BCR is monitored and reported on a daily basis. An internal limit was established as a percentage from own funds.

Analysis of market risk
Value at Risk of trading book

The following tables show the VaR amounts as of 31 December 2017 and 31 December 2016 respectively at the 99% confidence level using equally weighted market data and with a holding period of one day:

In RON thousand

| | FX position | Fixed Income | Money Market | Equity | Total Trading Book |
|-------------------------------|-------------|--------------|--------------|--------|--------------------|
| As at 31 December 2017 | 0.0 | 88.14 | 8.93 | 0.0 | 86.36 |
| As at 31 December 2016 | 0.0 | 439.0 | 101.1 | 86.7 | 463.3 |

Interest rate risk of banking book

Interest rate risk is the risk of an adverse change in the fair value of financial instruments caused by a movement in market interest rates. This type of risk arises when mismatches exist between assets and liabilities, including derivatives, in respect of their maturities or of the timing of interest rate adjustments.

In order to identify interest rate risk, all financial instruments, including transactions not recognized on the balance sheet, are grouped into maturity bands based on their remaining terms to maturity or terms to an interest rate adjustment (re-pricing). Positions without a fixed maturity (e.g. demand deposits) are included on the basis of modelled deposit rates that are determined by means of statistical methods.

The following tables list the open positions held by BCR by currency and re-pricing as of 31 December 2017 and 31 December 2016. Positive values indicate a surplus of asset items and therefore the unfavourable evolution would be a decrease in the interest rates; negative values represent a surplus on the liability side.

| ths. RON | Dec-17 | | | | | | |
|----------------|-------------------|--------------|-------------------|--------------|-------------------|------------------|-------------------|
| | Weighting factors | RON | | EUR | | Other currencies | |
| | | Net position | Weighted position | Net position | Weighted position | Net position | Weighted position |
| ≤ 1 m | 0.08% | 1,637,929 | 1,310 | 1,607,730 | 1,286 | (395,312) | (316) |
| > 1 m, ≤ 3 m | 0.32% | 1,384,459 | 4,430 | (1,074,642) | (3,439) | (679,999) | (2,176) |
| > 3 m, ≤ 6 m | 0.72% | (790,079) | (5,689) | (1,150,423) | (8,283) | (432,686) | (3,115) |
| > 6 m, ≤ 12 m | 1.43% | (1,411,125) | (20,179) | (697,204) | (9,970) | (372,442) | (5,326) |
| > 1 y, ≤ 2 y | 2.77% | 66,219 | 1,834 | (61,815) | (1,712) | (153,060) | (4,240) |
| > 2 y, ≤ 3 y | 4.49% | 2,643,209 | 118,680 | 1,165,294 | 52,322 | (144,131) | (6,471) |
| > 3 y, ≤ 4 y | 6.14% | 750,974 | 46,110 | 1,938,839 | 119,045 | (212,046) | (13,020) |
| > 4 y, ≤ 5 y | 7.71% | (2,773,586) | (213,843) | (4,202,176) | (323,988) | (669,218) | (51,597) |
| > 5 y, ≤ 7 y | 10.15% | 1,086,933 | 110,324 | 2,306,694 | 234,129 | (87,526) | (8,884) |
| > 7 y, ≤ 10 y | 13.26% | 711,350 | 94,325 | 3,140,003 | 416,364 | (173) | (23) |
| > 10 y, ≤ 15 y | 17.84% | 367,042 | 65,480 | 2,991 | 534 | (12) | (2) |
| > 15 y, ≤ 20 y | 22.43% | 38,155 | 8,558 | 126 | 28 | 52 | 12 |
| > 20 y | 26.03% | (51,762) | (13,474) | (1,454) | (379) | (5,201) | (1,354) |
| Total | | | 197,867 | | 475,938 | | (96,512) |

39. RISK MANAGEMENT (continued)
39.6 MARKET RISK (continued)

| Dec-16 | | | | | | | |
|----------------|-------------------|--------------|-------------------|--------------|-------------------|--------------|-------------------|
| ths. RON | RON | | EUR | | Other currencies | | |
| Maturity band | Weighting factors | Net position | Weighted position | Net position | Weighted position | Net position | Weighted position |
| ≤ 1 m | 0.08% | 295,837 | 237 | 3,568,728 | 2,855 | (13,447) | (11) |
| > 1 m, ≤ 3 m | 0.32% | (1,836,687) | (5,877) | (128,006) | (410) | (152,878) | (489) |
| > 3 m, ≤ 6 m | 0.72% | 456,256 | 3,285 | (575,139) | (4,141) | (317,065) | (2,283) |
| > 6 m, ≤ 12 m | 1.43% | (446,780) | (6,389) | (1,395,207) | (19,951) | (489,295) | (6,997) |
| > 1 y, ≤ 2 y | 2.77% | 1,101,229 | 30,504 | (47,166) | (1,306) | (115,226) | (3,192) |
| > 2 y, ≤ 3 y | 4.49% | 723,134 | 32,469 | 475,766 | 21,362 | (106,619) | (4,787) |
| > 3 y, ≤ 4 y | 6.14% | 1,774,478 | 108,953 | 2,214,492 | 135,970 | (102,233) | (6,277) |
| > 4 y, ≤ 5 y | 7.71% | 2,335,627 | 180,077 | 946,770 | 72,996 | (106,925) | (8,244) |
| > 5 y, ≤ 7 y | 10.15% | 679,887 | 69,009 | (828,905) | (84,134) | (214,221) | (21,743) |
| > 7 y, ≤ 10 y | 13.26% | 691,025 | 91,630 | 77,900 | 10,329 | (173,672) | (23,029) |
| > 10 y, ≤ 15 y | 17.84% | 502,622 | 89,668 | 53,369 | 9,521 | (138) | (25) |
| > 15 y, ≤ 20 y | 22.43% | 413 | 93 | 5,622 | 1,261 | 81 | 18 |
| > 20 y | 26.03% | (1,273) | (331) | (50,926) | (13,256) | (100) | (26) |
| Total | | | 593,326 | | 131,096 | | (77,084) |

The weighting factors are the regulatory factors from the standardized approach for interest rate risk for banking book of Regulation 5/2013, where the assumed shocks are of 200 basis points. The potential impact of the parallel shift of the interest rates in the market value of equity (MVoE) under this approach is illustrated in the tables below. The regulatory and internal limit for this impact as a percentage from own funds is 20%, while the warning level is 15%.

Group

| December 2017 (RON ths) | | | |
|--|-------------------|--------------|----------------|
| Own Funds | 7,193,277 | | |
| The Potential Decrease in the Market Value of Equity | in absolute value | RON | 486,852 |
| | | EUR | 197,552 |
| | | USD | 95,906 |
| | | Total | 780,310 |
| % of Own Funds | 10.85% | | |

Group

| December 2016 (RON ths) | | | |
|--|-------------------|--------------|----------------|
| Own Funds | 7,777,782 | | |
| The Potential Decrease in the Market Value of Equity | in absolute value | RON | 650,659 |
| | | EUR | 123,524 |
| | | USD | 76,573 |
| | | Total | 850,756 |
| % of Own Funds | 10.94% | | |

Bank

| December 2017 (RON ths) | | | |
|--|-------------------|--------------|----------------|
| Own Funds | 7,178,135 | | |
| The Potential Decrease in the Market Value of Equity | in absolute value | RON | 475,938 |
| | | EUR | 197,867 |
| | | USD | 96,512 |
| | | Total | 770,317 |
| % of Own Funds | 10.73% | | |

Bank

| December 2016 (RON ths) | | | |
|--|-------------------|--------------|----------------|
| Own Funds | 7,655,941 | | |
| The Potential Decrease in the Market Value of Equity | in absolute value | RON | 593,326 |
| | | EUR | 131,096 |
| | | USD | 77,084 |
| | | Total | 801,506 |
| % of Own Funds | 10.47% | | |

39. RISK MANAGEMENT (continued)
39.6 MARKET RISK (continued)

The following table shows the changes in NII (Net Interest Income) for a 1 year period and the impact on AFS reserve (equity) due to an instantaneous parallel shift of the yield curves with $\pm 1\%$, $\pm 2\%$.

| 2017 | | RON ths | |
|-------|------------------------------------|-------------------------------------|--|
| Shift | Sensitivity of Net Interest Income | Sensitivity of AFS reserve (equity) | |
| + 2% | 23,111 | (250,557) | |
| + 1% | 14,356 | (127,955) | |
| - 1% | (116,339) | 133,637 | |
| - 2% | (228,545) | 273,309 | |

| 2016 | | RON ths | |
|-------|------------------------------------|-------------------------------------|--|
| Shift | Sensitivity of Net Interest Income | Sensitivity of AFS reserve (equity) | |
| 2% | (53,636) | (268,862) | |
| 1% | (17,946) | (137,738) | |
| -1% | (65,451) | 144,801 | |
| -2% | (159,240) | 297,658 | |

Exchange rate risk

Risk from open foreign exchange positions is the risk related to exchange rates that derives from the mismatch between assets and liabilities, or from currency-related financial derivatives. These risks might originate from customer-related operations or proprietary trading and are monitored and managed on a daily basis. Foreign currency exposure is subject to internal limits.

39.7. LIQUIDITY RISK
Definition and overview

The liquidity risk is defined in the Group in line with the principles set out by the Basel Committee on Banking Supervision and the local regulator (National Bank of Romania). Accordingly, a distinction is made between market liquidity risk, which is the risk that the Group entities cannot easily offset or close a position at the market price because of inadequate market depth or market disruption, and funding liquidity risk, which is the risk that the banks in the Group will not be able to meet efficiently both expected and unexpected current and future cash flow and collateral needs without affecting either daily operations or the financial condition of the Group members.

Funding liquidity risk is further divided into insolvency risk and structural liquidity risk. The former is the short-term risk that current or future payment obligations cannot be met in full and on time in an economically justified manner, while structural liquidity risk is the long-term risk of losses due to a change in the Group's own refinancing cost or spread.

Liquidity strategy

The Liquidity Strategy was defined in accordance with the Group's risk appetite and it was compliant with internal and regulatory limits. The Liquidity Strategy contains developments, rules and targets including (but not limited to) regulatory requirements (e.g. LCR, NSFR), liquidity buffer, funding plan and maturity profile of issued debt and secured and unsecured interbank funding.

Methods and instruments employed

Short-term insolvency risk is monitored by calculating the survival period for each significant currency and total portfolio in the case of the Bank.

This analysis determines the maximum period during which the entity can survive a severe combined market and idiosyncratic crisis while

39. RISK MANAGEMENT (continued)
39.7 LIQUIDITY RISK (continued)

relying on its pool of liquid assets. The chosen worst-case scenario simulates very limited money market and capital market access and at the same time significant client deposit outflow. Furthermore, the simulation assumes increased drawdown on guarantees and loan commitments dependent on the type of the customer.

Additional to QIS monitoring according to BCBS guidelines and reporting of Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) according to CRR, the Group is reporting LCR internally according to Delegated Act since October 2015. The ratios are monitored at both entity and group level, and since 2014 LCR is part of the internal Risk Appetite Statement.

Additionally, the traditional liquidity gaps (depicting the going concern maturity mismatches) of the subsidiaries and the group as a whole are reported and monitored regularly. Funding concentration risk is continuously analyzed in respect to counterparties. The Group's fund transfer pricing (FTP) system has also proven to be an efficient tool for structural liquidity risk management.

Methods and instruments of risk mitigation

Short-term liquidity risk is managed by limits resulting from the survival period model, internal stress testing and by internal LCR targets at both entity and group level. Limit breaches are reported to the Asset Liability Committee (ALCO). Another important instrument for managing the liquidity risk within the Group and in relation to its subsidiaries is the FTP system. As the process of planning funding needs provides important information for liquidity management, a detailed overview of funding needs is prepared on a quarterly basis for the planning horizon across the Group.

The Contingency Plan of the Group ensures the necessary coordination of all parties involved in the liquidity management process in case of crisis and is reviewed on a regular basis. The contingency plans of the subsidiaries are coordinated as part of the plan for the Group.

Analysis of liquidity risk
Liquidity Coverage Ratio (LCR)

The ratio of the Group's liquidity buffer to its net liquidity outflows over a 30 calendar day stress period as defined in CRR Part VI with regard to liquidity coverage requirement for credit institutions. The evolution of BCR LCR on both stand alone and consolidated level are presented in the following table:

| LCR Group in RON thousand | Dec-17 | Dec-16 |
|--|---------------|---------------|
| High Quality Liquid Assets | 27,858,570 | 25,758,362 |
| Total Net Cash Outflows | 7,609,829 | 6,597,753 |
| LIQUIDITY COVERAGE RATIO | 366% | 390% |
| LCR Bank in RON thousand | Dec-17 | Dec-16 |
| High Quality Liquid Assets | 25,973,154 | 23,146,123 |
| Total Net Cash Outflows | 7,518,684 | 6,427,546 |
| LIQUIDITY COVERAGE RATIO | 345% | 360% |

Compared to December 2016, Liquidity Coverage Ratio as of December 2017 on both group and bank level has registered a decrease due to higher net cash outflows. The volume of high liquid assets has increased by 12.2% on stand alone level and by 8.1% on group level, while the volume of total net cash outflows has increased by 17% on stand alone level and by 15.3% on group level. The variability in the loans to and deposits from financial customers with residual maturity up to 1 month were the main drivers for the LCR volatility during the year.

39. RISK MANAGEMENT (continued)
39.7 LIQUIDITY RISK (continued)
Financial assets

The financial assets used for liquidity purposes are presented in the tables below. The amounts presented for securities refers to eligible assets at central bank which are unencumbered.

The financial assets used for liquidity purposes as of 31 December 2017 and 31 December 2016 respectively for the Group, were as follows:

| Group | Total | < 1 month | 1-3 months | 3-6 months | 6-12 months | 1-5 years | > 5 years |
|---|------------|-----------|------------|------------|-------------|------------|-----------|
| As of 31 December 2017, in thousands RON | | | | | | | |
| Assets used in liquidity purposes | 26,206,147 | 4,791,565 | 19,208 | 1,015,616 | 1,467,374 | 10,959,934 | 7,952,450 |
| Cash in hand | 4,712,308 | 4,712,308 | 0 | 0 | 0 | 0 | 0 |
| Securities | 21,493,839 | 79,257 | 19,208 | 1,015,616 | 1,467,374 | 10,959,934 | 7,952,450 |

| Group | Contractual cash flows | < 1 month | 1-3 months | 3-6 months | 6-12 months | 1-5 years | > 5 years |
|---|------------------------|-----------|------------|------------|-------------|------------|-----------|
| As of 31 December 2016, in thousands RON | | | | | | | |
| Assets used in liquidity purposes | 22,654,510 | 84,467 | 107,733 | 1,185,755 | 821,047 | 10,027,078 | 6,095,245 |
| Cash in hand | 4,333,186 | 0 | 0 | 0 | 0 | 0 | 0 |
| Securities | 18,321,324 | 84,467 | 107,733 | 1,185,755 | 821,047 | 10,027,078 | 6,095,245 |

The financial assets used for liquidity purposes as of 31 December 2017 and 31 December 2016 respectively for the Bank, were as follows:

| Bank | Total | < 1 month | 1-3 months | 3-6 months | 6-12 months | 1-5 years | > 5 years |
|---|------------|-----------|------------|------------|-------------|-----------|-----------|
| As of 31 December 2017, in thousands RON | | | | | | | |
| Assets used in liquidity purposes | 24,479,942 | 61,898 | 90 | 1,001,548 | 1,180,426 | 9,588,731 | 7,952,450 |
| Cash in hand | 4,694,799 | 0 | 0 | 0 | 0 | 0 | 0 |
| Securities | 19,785,142 | 61,898 | 90 | 1,001,548 | 1,180,426 | 9,588,731 | 7,952,450 |

| Bank | Total | < 1 month | 1-3 months | 3-6 months | 6-12 months | 1-5 years | > 5 years |
|---|------------|-----------|------------|------------|-------------|-----------|-----------|
| As of 31 December 2016, in thousands RON | | | | | | | |
| Assets used in liquidity purposes | 20,634,552 | 12,276 | 94,995 | 1,012,824 | 449,664 | 8,646,992 | 6,095,166 |
| Cash in hand | 4,322,634 | 0 | 0 | 0 | 0 | 0 | 0 |
| Securities | 16,311,918 | 12,276 | 94,995 | 1,012,824 | 449,664 | 8,646,992 | 6,095,166 |

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39. RISK MANAGEMENT (continued)

39.7 LIQUIDITY RISK (continued)

Financial liabilities

Maturities of contractual undiscounted cash flows from financial liabilities as of 31 December 2017 and 31 December 2016 respectively for the Group, were as follows:

| Group | Carrying amounts | Contractual cash flows | < 1 month | 1-3 months | 3-6 months | 6-12 months | 1-5 years | > 5 years |
|---|-------------------|------------------------|-------------------|------------------|------------------|------------------|------------------|----------------|
| As of 31 December 2017, in thousands RON | | | | | | | | |
| Non-derivative liabilities | 60,861,900 | 61,810,759 | 33,691,054 | 9,540,040 | 4,882,398 | 5,615,414 | 7,673,607 | 408,246 |
| Deposits by banks | 5,454,691 | 5,918,956 | 1,351,540 | 727,268 | 283,073 | 731,610 | 2,577,144 | 248,321 |
| Customer deposits | 52,496,062 | 52,688,059 | 32,333,475 | 8,783,986 | 3,929,478 | 3,949,035 | 3,532,160 | 159,926 |
| Debt securities in issue | 539,648 | 594,176 | 0 | 0 | 108,125 | 111,369 | 374,682 | 0 |
| Subordinated liabilities | 2,371,499 | 2,609,568 | 6,039 | 28,786 | 561,721 | 823,400 | 1,189,621 | 0 |
| Contingent liabilities | 7,785,597 | 7,785,597 | 7,785,597 | 0 | 0 | 0 | 0 | 0 |
| Financial guarantees | 3,014,797 | 3,014,797 | 3,014,797 | 0 | 0 | 0 | 0 | 0 |
| Irrevocable commitments | 4,770,800 | 4,770,800 | 4,770,800 | 0 | 0 | 0 | 0 | 0 |
| Derivatives | 44,661 | 6,453,082 | 2,470,064 | 329,949 | 219,154 | 1,225,471 | 1,996,524 | 211,920 |

| Group | Carrying amounts | Contractual cash flows | < 1 month | 1-3 months | 3-6 months | 6-12 months | 1-5 years | > 5 years |
|---|-------------------|------------------------|-------------------|------------------|------------------|------------------|------------------|------------------|
| As of 31 December 2016, in thousands RON | | | | | | | | |
| Non-derivative liabilities | 58,527,063 | 59,379,133 | 28,729,800 | 8,821,797 | 4,831,423 | 5,874,900 | 9,166,308 | 1,954,905 |
| Deposits by banks | 7,309,894 | 7,377,079 | 880,734 | 362,071 | 741,126 | 1,061,340 | 3,101,699 | 1,230,109 |
| Customer deposits | 48,235,198 | 48,513,110 | 27,811,566 | 8,379,414 | 4,066,774 | 4,718,907 | 3,377,538 | 158,911 |
| Debt securities in issue | 637,192 | 726,551 | 33,050 | 52,869 | 10,318 | 44,914 | 585,400 | 0 |
| Subordinated liabilities | 2,344,779 | 2,762,393 | 4,450 | 27,443 | 13,205 | 49,739 | 2,101,671 | 565,885 |
| Contingent liabilities | 7,717,203 | 7,717,203 | 7,717,203 | 0 | 0 | 0 | 0 | 0 |
| Financial guarantees | 2,745,106 | 2,745,106 | 2,745,106 | 0 | 0 | 0 | 0 | 0 |
| Irrevocable commitments | 4,972,097 | 4,972,097 | 4,972,097 | 0 | 0 | 0 | 0 | 0 |
| Derivatives | 38,391 | 7,691,473 | 2,797,823 | 156,444 | 404,657 | 995,378 | 3,092,429 | 244,742 |

Compared to 2016, the volume of deposits (customers and banks) for the Group as of 31 December 2017 increased from RON 55,545,092 thousands to RON 57,950,753 thousands.

39. RISK MANAGEMENT (continued)
39.7 LIQUIDITY RISK (continued)

Maturities of contractual undiscounted cash flows from financial liabilities as of 31 December 2017 and 31 December 2016 respectively for the Bank were as follows:

| Bank | Carrying amounts | Contractual cash flows | < 1 month | 1-3 months | 3-6 months | 6-12 months | 1-5 years | > 5 years |
|---|-------------------|------------------------|-------------------|------------------|------------------|------------------|------------------|----------------|
| As of 31 December 2017, in thousands RON | | | | | | | | |
| Non-derivative liabilities | 57,814,439 | 58,828,991 | 33,136,194 | 9,414,502 | 4,669,055 | 5,397,825 | 5,803,170 | 408,246 |
| Deposits by banks | 5,018,134 | 5,693,070 | 1,347,114 | 683,503 | 271,421 | 731,610 | 2,411,102 | 248,321 |
| Customer deposits | 49,885,158 | 49,932,178 | 31,783,041 | 8,702,213 | 3,727,787 | 3,731,445 | 1,827,765 | 159,926 |
| Debt securities in issue | 539,648 | 594,176 | 0 | 0 | 108,125 | 111,369 | 374,682 | 0 |
| Subordinated liabilities | 2,371,499 | 2,609,568 | 6,039 | 28,786 | 561,721 | 823,400 | 1,189,621 | 0 |
| Contingent liabilities | 7,776,645 | 7,776,645 | 7,776,645 | 0 | 0 | 0 | 0 | 0 |
| Financial guarantees | 3,045,642 | 3,045,642 | 3,045,642 | 0 | 0 | 0 | 0 | 0 |
| Irrevocable commitments | 4,731,003 | 4,731,003 | 4,731,003 | 0 | 0 | 0 | 0 | 0 |
| Derivatives | 44,661 | 6,453,082 | 2,470,064 | 329,949 | 219,154 | 1,225,471 | 1,996,524 | 211,920 |

| Bank | Carrying amounts | Contractual cash flows | < 1 month | 1-3 months | 3-6 months | 6-12 months | 1-5 years | > 5 years |
|---|-------------------|------------------------|-------------------|------------------|------------------|------------------|------------------|------------------|
| As of 31 December 2016, in thousands RON | | | | | | | | |
| Non-derivative liabilities | 55,117,196 | 56,201,869 | 28,276,443 | 8,708,547 | 4,595,939 | 5,545,292 | 7,120,743 | 1,954,905 |
| Deposits by banks | 6,780,316 | 7,266,022 | 875,571 | 333,713 | 741,126 | 1,061,340 | 3,024,163 | 1,230,109 |
| Customer deposits | 45,354,909 | 45,446,903 | 27,363,372 | 8,294,522 | 3,831,290 | 4,389,299 | 1,409,509 | 158,911 |
| Debt securities in issue | 637,192 | 726,551 | 33,050 | 52,869 | 10,318 | 44,914 | 585,400 | 0 |
| Subordinated liabilities | 2,344,779 | 2,762,393 | 4,450 | 27,443 | 13,205 | 49,739 | 2,101,671 | 565,885 |
| Contingent liabilities | 7,708,249 | 7,708,249 | 7,708,249 | 0 | 0 | 0 | 0 | 0 |
| Financial guarantees | 2,767,239 | 2,767,239 | 2,767,239 | 0 | 0 | 0 | 0 | 0 |
| Irrevocable commitments | 4,941,010 | 4,941,010 | 4,941,010 | 0 | 0 | 0 | 0 | 0 |
| Derivatives | 38,391 | 7,691,473 | 2,797,823 | 156,444 | 404,657 | 995,378 | 3,092,429 | 244,742 |

Compared to 2016, the volume of deposits (customers and banks) for the Bank as of 31 December 2017 increased from RON 52,135,225 thousands to RON 54,903,292 thousands.

As of year-end 2017, the currency composition of the deposits consisted of approximately 62.65% RON (57.69% as of year-end 2016), 32.05% EUR (36.65% as of year-end 2016), 4.56% USD (5% as of year-end 2016) and the rest 0.74% in other currencies.

39. RISK MANAGEMENT (continued)**39.8. OPERATIONAL RISK****Definition and overview**

In line with Article 4 Section 52 regulation (EU) 575/2013 (CRR), the Group defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Operational risk includes legal risk, model risk and information technology related risk (IT risk), but exclude strategic and reputational risk.

According with National Bank of Romania regulation no. 5/2013, the legal (judicial) risk is defined as the loss risk following fines, penalties and sanctions for which the credit institution is liable in case of not applying or deficiently applying the legal or contractual dispositions, as well as the fact that the contractual rights and liabilities of the credit institutions and/or of its counterparty are not established adequately.

IT risk means a subcategory of operational risk, that concerns the current or prospective risk of adverse impact on earnings and capital, arising from inadequate IT strategy and policies, information technology or processing, in terms of manageability, integrity, controllability and continuity thereof, or from inadequate use of the institution's information technology.

Model risk means the potential loss a credit institution may incur, as a consequence of decisions that could be principally based on the output of internal models, due to errors in the development, implementation or use of such models.

Both quantitative and qualitative methods are used to identify operational risks. Consistent with international practice, the responsibility for managing operational risk rests with the line management.

Methods and instruments employed

The quantitative measurement methods are based on internal loss experience data, which is collected across BCR Group using a standard methodology and entered into a central data pool. Additionally, in order to be able to model losses that have not occurred in the past but are nonetheless possible, scenarios and external data are also used at Erste Group level (sources external data from a leading non-profit risk-loss data consortium).

Starting with October 2010, the Bank uses the AMA (Advanced Measurement Approach for operational risk) as per National Bank of Romania and Austrian Financial Markets Authority approval. AMA is a sophisticated approach to measuring operational risk. Pursuant to AMA, the required capital is calculated using an internal Value at Risk (VaR) model, taking into account internal data, external data, scenario analysis, business environment and internal risk control factors.

Methods and instruments of risk mitigation

In addition to quantitative methods, qualitative methods are also used to determine operational risk, such as risk assessments. The Group also review certain key indicators periodically to ensure early detection of changes in risk potential that may lead to losses. The Key Risk Indicators (early warnings on the risk level or quality of controls within the organization) are periodically monitored and reported to management.

BCR Group uses an Erste Group-wide insurance program, which covers traditional property insurance needs and bank-specific risks. This program uses a captive reinsurance entity as a vehicle to share losses within the Group and access the external market.

The quantitative and qualitative methods used, together with the insurance strategy and the modeling approaches described above, form the operational risk framework of the the Group. Information on operational risk is periodically communicated to the management board via various reports, which include capital requirements value, describe the recent loss history, loss developments, top losses, mitigation measures, key risk indicators with limit breaches (also related to outsourced activities), main operational risk achievements, insurance management, the results of risk and control self-assessments, as well as the operational risk VaR.

39. RISK MANAGEMENT (continued)**39.8 OPERATIONAL RISK (continued)****Distribution of operational risk events**

The event type categories are as follows:

- *Internal fraud:* Losses due to acts of a type intended to defraud, misappropriate property or circumvent regulations, the law or company policy, excluding diversity or discrimination events that involve at least one internal party.
- *External fraud:* Losses due to acts by a third party of a type intended to defraud, misappropriate property or circumvent the law.
- *Employment practices and workplace safety:* Losses arising from acts inconsistent with employment, health or safety laws or agreements, from payment of personal injury claims, or from diversity or discrimination events.
- *Clients, products and business practices:* Losses arising from unintentional or negligent failure to meet a professional obligation to specific clients (including fiduciary and suitability requirements) or from the nature or design of a product.
- *Damage to physical assets:* Losses arising from loss of or damage to physical assets caused by natural disaster or other events.
- *Business disruption and system failures:* Losses arising from disruption of business or system failures.
- *Execution, delivery and process management:* Losses from failed transaction processing or process management. Losses pertaining to relationships with trading counterparties and vendors or suppliers.

40. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value is best evidenced by a quoted market price, if such exists. Credit Value Adjustment/Debt Value Adjustment is included in the fair value of derivatives and it is immaterial both at 31 December 2017 and 2016.

Level 1 of the fair value hierarchy

The fair value of financial instruments assigned to level 1 of the fair value hierarchy is determined based on quoted prices in active markets for identical financial assets and liabilities. More particular, the evaluated fair value can qualify as a level 1 input if transactions occur with sufficient frequency, volume and pricing consistency on an ongoing basis.

These include exchange traded derivatives (futures, options), shares, government bonds as well as other bonds and funds, which are traded in highly liquid and active markets.

Level 2 of the fair value hierarchy

In case a market quote is used for valuation but due to restricted liquidity the market does not qualify as active (derived from available market liquidity indicators) the instrument is classified as level 2. If no market prices are available the fair value is measured by using valuation models which are based on observable market data. If all the significant inputs in the valuation model are observable the instrument is classified as level 2 of the fair value hierarchy. For level 2 valuations typically yield curves, credit spreads and implied volatilities are used as observable market parameters. These include over-the-counter (OTC) derivatives, less liquid shares, bonds and funds as well as and own issues.

Level 3 of the fair value hierarchy

In some cases, the fair value can be determined neither on the basis of sufficiently frequent quoted market prices nor of valuation models that rely entirely on observable market data. In these cases individual valuation parameters not observable in the market are estimated on the basis of reasonable assumptions. If any unobservable input in the valuation model is significant or the price quote used is updated infrequently the instrument is classified as level 3 of the fair value hierarchy. For level 3 valuations besides observable parameters typically credit spreads derived from internally calculated historical probability of default (PD) and loss given default (LGD) measures are used as unobservable parameters.

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40. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

40.1 Financial instruments whose fair value is disclosed in the notes (continued)

| in RON thousands | Group | | | | Bank | | |
|--|-----------------|------------|----------------------|---------|------------|----------------------|------------|
| | Carrying amount | Fair value | Fair value hierarchy | | Fair value | Fair value hierarchy | |
| | | | Level 1 | Level 2 | | Level 1 | Level 2 |
| ASSETS | | | | | | | |
| Loans and advances | 32,843,964 | 33,337,739 | - | - | 32,501,236 | - | 32,501,236 |
| with credit institutions | 552,830 | 553,406 | - | - | 650,926 | - | 650,926 |
| with customers | 32,291,134 | 32,784,333 | - | - | 31,850,310 | - | 31,850,310 |
| Held-to-maturity investments | 13,904,201 | 14,264,287 | 14,244,497 | 14,624 | 12,721,270 | 12,721,270 | - |
| Government bonds and treasury bills | 13,904,201 | 14,264,287 | 14,244,497 | 14,624 | 12,721,270 | 12,721,270 | - |
| Securities listed, quoted on active markets | 13,884,895 | 14,244,497 | 14,244,497 | - | 12,721,270 | 12,721,270 | - |
| Securities listed, quoted on inactive markets | 14,140 | 14,624 | - | 14,624 | - | - | - |
| Securities unlisted | 5,166 | 5,166 | - | - | - | - | - |
| LIABILITIES | | | | | | | |
| Financial liabilities measured at amortised cost | 59,236,059 | 57,841,473 | - | 706,840 | 55,825,328 | 56,045,787 | 999,377 |
| Deposits | 57,889,871 | 56,455,738 | - | - | 54,480,004 | 54,656,735 | 54,656,735 |
| from banks | 9,654,673 | 9,683,969 | - | - | 9,125,095 | 9,382,330 | 9,382,330 |
| from customers | 48,235,198 | 46,771,769 | - | - | 45,354,909 | 45,274,405 | 45,274,405 |
| Debt securities issued | 637,192 | 706,840 | - | 706,840 | 637,192 | 707,632 | 999,377 |
| Other financial liabilities | 708,996 | 678,895 | - | - | 708,132 | 681,420 | 681,420 |

The fair value of loans and advances to customers and credit institutions has been calculated by discounting future cash flows while taking into consideration interest and credit spread effects. The interest rate impact is based on the movements of market rates, while credit spread changes are derived from PD's used for internal risk calculations. For the calculation of fair value loans and advances were grouped into homogeneous portfolios based on rating method, rating grade, maturity and the country where they were granted. The fair values of financial assets held to maturity are either taken directly from the market or they are determined by directly observable input parameters (i.e. yield curves).

The fair value of issued securities and other financial liabilities measured at amortized cost is based on quoted prices in active market for identical item held by another party. If these are not available other observable inputs are used (e.g. quoted price in an inactive market) and in this case they are allocated to Level 2. If another valuation technique that uses unobservable inputs is considered like for example the actual interest rate environment or own credit spreads, then Level 3 is assigned.

40. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)
40.2. Financial instruments measured at fair value in the statement of financial position

| in RON thousands | Group | | | | | | | |
|---|--|------------------|---|----------------|--|----------------|------------------|------------------|
| | Quoted market prices in active markets Level 1 | | Marked to model based on observable market data Level 2 | | Marked to model based on non- observable inputs Level 3 | | Total | |
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| ASSETS | | | | | | | | |
| Financial assets held for trading | 49,875 | 554,228 | 51,944 | 74,800 | 2,875 | 4,171 | 104,694 | 633,199 |
| Derivatives held for trading | - | - | 38,574 | 69,853 | 2,875 | 3,633 | 41,449 | 73,486 |
| Other trading assets | 49,875 | 554,228 | 13,370 | 4,947 | - | 538 | 63,245 | 559,713 |
| <i>Government bonds and treasury bills</i> | 49,875 | 554,228 | 13,370 | 4,947 | - | - | 63,245 | 559,175 |
| <i>Corporate shares</i> | - | - | - | - | - | 538 | - | 538 |
| Financial assets designated at FV through profit or loss | - | - | 15,131 | - | - | 15,319 | 15,131 | 15,319 |
| <i>Bonds issued by local authorities</i> | - | - | 15,131 | - | - | 15,319 | 15,131 | 15,319 |
| Financial assets available for sale | 5,637,316 | 5,216,738 | 908,142 | 76,507 | 54,492 | 280,842 | 6,599,950 | 5,574,087 |
| <i>Government bonds and treasury bills</i> | 5,447,248 | 5,075,402 | 679,021 | 73,193 | - | - | 6,126,269 | 5,148,595 |
| <i>Bonds issued by local authorities</i> | - | - | 229,121 | - | 806 | 226,641 | 229,927 | 226,641 |
| <i>Corporate shares</i> | 190,068 | 141,336 | - | 3,314 | 53,686 | 54,201 | 243,754 | 198,851 |
| Total Assets | 5,687,191 | 5,770,966 | 975,217 | 151,307 | 57,367 | 300,332 | 6,719,775 | 6,222,605 |
| LIABILITIES | | | | | | | | |
| Financial liabilities held for trading | - | - | 44,661 | 38,391 | - | - | 44,661 | 38,391 |
| Derivatives held for trading | - | - | 44,661 | 38,391 | - | - | 44,661 | 38,391 |
| Total Liabilities | - | - | 44,661 | 38,391 | - | - | 44,661 | 38,391 |
| Bank | | | | | | | | |
| in RON thousands | Bank | | | | | | | |
| | Quoted market prices in active markets Level 1 | | Marked to model based on observable market data Level 2 | | Marked to model based on non- observable inputs Level 3 | | Total | |
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| ASSETS | | | | | | | | |
| Financial assets held for trading | 49,875 | 554,228 | 51,944 | 74,800 | 2,875 | 4,171 | 104,694 | 633,199 |
| Derivatives held for trading | - | - | 38,574 | 69,853 | 2,875 | 3,633 | 41,449 | 73,486 |
| Other trading assets | 49,875 | 554,228 | 13,370 | 4,947 | - | 538 | 63,245 | 559,713 |
| <i>Government bonds and treasury bills</i> | 49,875 | 554,228 | 13,370 | 4,947 | - | - | 63,245 | 559,175 |
| <i>Corporate shares</i> | - | - | - | - | - | 538 | - | 538 |
| Financial assets designated at FV through profit or loss | - | - | 15,131 | - | - | 15,319 | 15,131 | 15,319 |
| <i>Bonds issued by local authorities</i> | - | - | 15,131 | - | - | 15,319 | 15,131 | 15,319 |
| Financial assets available for sale | 5,212,252 | 4,540,624 | 880,480 | 24,057 | 54,260 | 280,622 | 6,146,992 | 4,845,303 |
| <i>Government bonds and treasury bills</i> | 5,022,184 | 4,399,288 | 651,359 | 20,743 | - | - | 5,673,543 | 4,420,031 |
| <i>Bonds issued by local authorities</i> | - | - | 229,121 | - | 806 | 226,641 | 229,927 | 226,641 |
| <i>Corporate shares</i> | 190,068 | 141,336 | - | 3,314 | 53,454 | 53,981 | 243,522 | 198,631 |
| Total Assets | 5,262,127 | 5,094,852 | 947,555 | 98,857 | 57,135 | 300,112 | 6,266,817 | 5,493,821 |

The increase in level 1, financial assets available for sale is mostly due to the increase in bonds portfolio with the Ministry of Finance by almost 623 thousand RON.

The variation in level 2 financial assets available for sale is mostly due to:

- acquisition of a treasury bond issued by Ministry of Finance (RO1718CTN070) with a fair value as of December 2017 in amount of RON 651,358 thousand with a BVAL score less than 8;
- migration of municipal bonds from level 3 to level 2 in amount of 244,252 thousand RON. The reason for which the securities were reclassified is the fact that the significance tests showed an effect of less than 2% of the unobservable inputs on the fair value of each security. As a consequence the unobservable inputs were considered non-significant and according to internal and group policy, the securities were moved to level 2;
- bonds that reached to maturity, issued by Ministry of Finance, in amount of 21 mio RON.

In respect of bonds issued by local authorities, BCR has reclassified from level 3 to level 2 municipalities with a balance of 15 mio RON as a result of the significance tests performed which showed an effect of less than 2% of unobservable inputs.

40. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

40.3. Valuation of level 3 financial instruments

The volume of level 3 financial assets can be allocated to the following two categories:

- Market values of derivatives where the credit value adjustment (CVA) has a material impact and is calculated based on unobservable parameters (i.e. internal estimates of PDs and LGDs).
- Illiquid bonds, shares and funds not quoted in an active market where either valuation models with non-observable parameters have been used (e.g. credit spreads) or broker quotes have been used that cannot be allocated to Level 1 or Level 2.

The unobservable inputs from CVA calculation are the probability of default (PD) and loss given default (LGD). The probabilities of default are the result of the rating models development internally (at ERSTE Group level) and are used to evaluate the credit risk including CVA. According to the allocated rating, each counterparty has assigned a probability of default. The value of LGD parameter for the calculation of CVA is 60%.

In order to mark to market the municipal bonds in Fair Value Hierarchy, the bank proceeds as follows:

- Municipal bonds evaluated in Calypso application using market data stored (yield curves) stored in CDMS (Central Data Management System).
- To the yield curve, a margin which incorporates the credit risk of each debt issuer is added

The following table shows the impact of different shocks applied to the credit spread on the fair value of the municipal bonds:

| Credit spread variation (in b.p.) | Impact in fair value (in ths. RON) |
|-----------------------------------|------------------------------------|
| +100 | (9,126) |
| -100 | 9,862 |
| +50 | (4,685) |
| -50 | 4,847 |

As of 31st December 2017, the fair valuation of VISA Inc preferred shares was based on reasonable assumptions and estimations being classified in level 3 as in December 2016. Visa shares cannot be sold before a minimum holding period of 12 years and are limited to certain conditions which may restrict the conversion of preferred shares into tradable VISA Inc shares. Due to these limiting conditions the fair value of the preferred shares was capped based on assumptions compared to free tradable VISA Inc. class A common shares. The price of class C common shares was determined based on the conversion ratio of 1:13,952 and an additional haircut of 15%.

40. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)
40.4 Movements in Level 3 of financial instruments carried at fair value

| | | | | | | | Group |
|---|----------------|--|---|----------|------------------------|--------------------------|---------------|
| in RON thousands | 2016 | Gains /(Losses) in profit or loss | Gains /(Losses) in other comprehensive income | Purchase | Sales / Settlements | Transfer into Level 3 | 2017 |
| ASSETS | | | | | | | |
| Financial assets held for trading | 4,171 | (758) | - | - | - | (538) | 2,875 |
| Derivatives held for trading | 3,633 | (758) | - | - | - | - | 2,875 |
| Other trading assets | 538 | - | - | - | - | (538) | - |
| Financial assets designated at fair value through Profit & Loss | 15,319 | 185 | - | - | - | (15,504) | - |
| Financial assets available for sale | 280,842 | 238 | - | - | (448) | (226,140) | 54,492 |
| Total Assets | 300,332 | (335) | - | - | (448) | (242,182) | 57,367 |

| | | | | | | | Group |
|---|----------------|--|---|---------------|------------------------|--------------------------|----------------|
| in RON thousands | 2015 | Gains /(Losses) in profit or loss | Gains /(Losses) in other comprehensive income | Purchase | Sales / Settlements | Transfer into Level 3 | 2016 |
| ASSETS | | | | | | | |
| Financial assets held for trading | 4,430 | (259) | - | - | - | - | 4,171 |
| Derivatives held for trading | 3,931 | (298) | - | - | - | - | 3,633 |
| Other trading assets | 499 | 39 | - | - | - | - | 538 |
| Financial assets designated at fair value through Profit & Loss | 17,967 | (743) | - | - | (1,905) | - | 15,319 |
| Financial assets available for sale | 362,791 | 4,463 | (1,586) | 46,507 | (131,333) | - | 280,842 |
| Total Assets | 385,188 | 3,461 | (1,586) | 46,507 | (133,238) | - | 300,332 |

| | | | | | | | Bank |
|---|----------------|--|--|------------|------------------------|--------------------------|---------------|
| in RON thousands | 2016 | Gains /(Losses) in profit or loss | Gains /(Losses) in other comprehensiv e income | Purchase | Sales / Settlements | Transfer into Level 3 | 2017 |
| ASSETS | | | | | | | |
| Financial assets held for trading | 4,171 | (758) | - | - | - | (538) | 2,875 |
| Derivatives held for trading | 3,633 | (758) | - | - | - | - | 2,875 |
| Other trading assets | 538 | - | - | - | - | (538) | - |
| Financial assets designated at fair value through Profit & Loss | 15,319 | - | - | 185 | - | (15,504) | - |
| Financial assets available for sale | 280,622 | (566) | (302) | - | (432) | (225,062) | 54,260 |
| Total Assets | 300,112 | (1,324) | (302) | 185 | (432) | (241,104) | 57,135 |

40. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)
40.4 Movements in Level 3 of financial instruments carried at fair value (continued)

| in RON thousands | 2015 | Gains /(Losses) in profit or loss | Gains /(Losses) in other comprehensiv e income | Purchase | Sales / Settlements | Transfer into Level 3 | Bank |
|---|----------------|--|--|---------------|------------------------|--------------------------|----------------|
| | | | | | | | 2016 |
| ASSETS | | | | | | | |
| Financial assets held for trading | 4,430 | (259) | - | - | - | - | 4,171 |
| Derivatives held for trading | 3,931 | (298) | - | - | - | - | 3,633 |
| Other trading assets | 499 | 39 | - | - | - | - | 538 |
| Financial assets designated at fair value through Profit & Loss | 17,967 | (743) | - | - | (1,905) | - | 15,319 |
| Financial assets available for sale | 362,569 | 4,463 | (1,586) | 46,507 | (131,331) | - | 280,622 |
| Total Assets | 384,966 | 3,461 | (1,586) | 46,507 | (133,236) | - | 300,112 |

The acquisition of shares in VISA Europe by VISA Inc. was effectuated according to plan in the second quarter of 2016. The initial offer of VISA Inc. from November 2015 included a cash payment, VISA Inc preferred shares and a potential Earn-out-payment in the year 2020. In the course of the fair valuation of the VISA shares as of 31st December 2015, all parts of the offer were taken into account. In May 2016 the offer was adjusted, whereas the earn-out-payments was replaced by a future payments 3 years after closing. This adjustment resulted in an additional increase of the fair value via other comprehensive income. The sales price of RON 110,228 thousands comprising cash payment, VISA Inc preferred shares and future payments was considered as a Level 3 sale.

41. FAIR VALUES OF NON-FINANCIAL ASSETS

The following table shows fair values and fair value hierarchy of non-financial instruments at the year-end 2017 and 2016:

| in RON thousands | 2017 | | | | | Group |
|--|-----------------|------------|--|---|--|---------|
| | Carrying amount | Fair value | Quoted market prices in active markets Level 1 | Marked to model based on observable market data Level 2 | Marked to model based on non-observable inputs Level 3 | |
| Assets whose Fair Value is disclosed in the notes | | | | | | |
| Investment property | 121,490 | 146,324 | - | - | - | 146,324 |
| Assets whose Fair Value is presented in the Balance sheet | | | | | | |
| Assets held for sale (IFRS 5) | 1,484 | 959 | - | - | - | 959 |
| in RON thousands | 2016 | | | | | Group |
| | Carrying amount | Fair value | Quoted market prices in active markets Level 1 | Marked to model based on observable market data Level 2 | Marked to model based on non-observable inputs Level 3 | |
| Assets whose Fair Value is disclosed in the notes | | | | | | |
| Investment property | - | - | - | - | - | - |
| Assets whose Fair Value is presented in the Balance sheet | | | | | | |
| Assets held for sale (IFRS 5) | 2,292 | 4,646 | - | - | - | 4,646 |

41. FAIR VALUES OF NON-FINANCIAL ASSETS (continued)

| | | | 2017 | | Bank |
|--|-----------------|------------|--|---|--|
| in RON thousands | Carrying amount | Fair value | Quoted market prices in active markets Level 1 | Marked to model based on observable market data Level 2 | Marked to model based on non-observable inputs Level 3 |
| Assets whose Fair Value is disclosed in the notes | | | | | |
| Investment property | 121,490 | 146,324 | - | - | 146,324 |
| Assets whose Fair Value is presented in the Balance sheet | | | | | |
| Assets held for sale (IFRS 5) | 1,484 | 959 | - | - | 959 |

| | | | 2016 | | Bank |
|--|-----------------|------------|--|---|--|
| in RON thousands | Carrying amount | Fair value | Quoted market prices in active markets Level 1 | Marked to model based on observable market data Level 2 | Marked to model based on non-observable inputs Level 3 |
| Assets whose Fair Value is disclosed in the notes | | | | | |
| Investment property | - | - | - | - | - |
| Assets whose Fair Value is presented in the Balance sheet | | | | | |
| Assets held for sale (IFRS 5) | 2,292 | 4,646 | - | - | 4,646 |

Investment property is measured at fair value on recurring basis. Assets held for sale are measured at fair value on non-recurring basis when their carrying amount is impaired down to fair value less costs to sell.

The fair values of non-financial assets are determined by experts with recognized and relevant professional qualification.

For non-financial assets owned by BCR Group the valuations are carried out mainly using the comparative and investment methods. Assessment is made on the basis of a comparison and analysis of appropriate comparable investment and rental transactions, together with evidence of demand within the vicinity of the relevant property. The characteristics of such similar transactions are then applied to the asset, taking into account size, location, terms, covenant and other material factors. Such measurements are presented in Level 3 of the fair value hierarchy.

42. FINANCIAL INSTRUMENTS PER CATEGORY ACCORDING TO IAS 39

| in RON thousands | 2017 | | | | | | | | | | Group |
|---|-----------------------|-------------------|-----------------|--------------------------|--------------------|---|------------------|---|-----------------------------------|----------|---------------------|
| | Loans and receivables | Held to maturity | Trading | Designated at fair value | Available for sale | Financial liabilities at amortised cost | Cash on hand | Derivatives designated as hedging instruments | Finance lease according to IAS 17 | Total | |
| ASSETS | | | | | | | | | | | |
| Cash and cash balances | 6,657,036 | - | - | - | - | - | 4,712,308 | - | - | - | 11,369,344 |
| Loans and advances to credit institutions | 2,215,113 | - | - | - | - | - | - | - | - | - | 2,215,113 |
| Loans and advances to customers | 32,109,460 | - | - | - | - | - | - | - | 1,381,423 | - | 33,490,883 |
| Financial assets - held for trading | - | - | 104,694 | - | - | - | - | - | - | - | 104,694 |
| Financial assets - at fair value through profit or loss | - | - | - | 15,131 | - | - | - | - | - | - | 15,131 |
| Financial assets - available for sale | - | - | - | - | 6,599,950 | - | - | - | - | - | 6,599,950 |
| Financial assets - held to maturity | - | 14,756,894 | - | - | - | - | - | - | - | - | 14,756,894 |
| Total financial assets | 40,981,609 | 14,756,894 | 104,694 | 15,131 | 6,599,950 | - | 4,712,308 | - | 1,381,423 | - | 68,552,009 |
| Net gains / losses recognized through profit or loss | (31,715) | 131 | 80,166 | 1,689 | (421) | - | - | - | - | - | 49,850 |
| Net gains / losses recognized through OCI | - | - | - | - | (50,876) | - | - | - | - | - | (50,876) |
| LIABILITIES | | | | | | | | | | | |
| Financial liabilities - held for trading | - | - | (44,661) | - | - | - | - | - | - | - | (44,661) |
| Financial liabilities - measured at amortized cost | - | - | - | - | - | (62,007,067) | - | - | - | - | (62,007,067) |
| Total financial liabilities | - | - | (44,661) | - | - | (62,007,067) | - | - | - | - | (62,051,728) |
| Net gains / losses recognized through profit or loss | - | - | 249,025 | - | - | - | - | - | - | - | 249,025 |

42. FINANCIAL INSTRUMENTS PER CATEGORY ACCORDING TO IAS 39 (continued)

| in RON thousands | 2016 | | | | | | | | | | Group |
|---|-----------------------|-------------------|-----------------|--------------------------|--------------------|---|------------------|---|-----------------------------------|----------|---------------------|
| | Loans and receivables | Held to maturity | Trading | Designated at fair value | Available for sale | Financial liabilities at amortised cost | Cash on hand | Derivatives designated as hedging instruments | Finance lease according to IAS 17 | Total | |
| ASSETS | | | | | | | | | | | |
| Cash and cash balances | 7,578,709 | - | - | - | - | - | 4,333,186 | - | - | - | 11,911,895 |
| Loans and advances to credit institutions | 552,830 | - | - | - | - | - | - | - | - | - | 552,830 |
| Loans and advances to customers | 31,305,667 | - | - | - | - | - | - | - | 985,467 | - | 32,291,134 |
| Financial assets - held for trading | - | - | 633,199 | - | - | - | - | - | - | - | 633,199 |
| Financial assets - at fair value through profit or loss | - | - | - | 15,319 | - | - | - | - | - | - | 15,319 |
| Financial assets - available for sale | - | - | - | - | 5,574,087 | - | - | - | - | - | 5,574,087 |
| Financial assets - held to maturity | - | 13,904,201 | - | - | - | - | - | - | - | - | 13,904,201 |
| Total financial assets | 39,437,206 | 13,904,201 | 633,199 | 15,319 | 5,574,087 | - | 4,333,186 | - | 985,467 | - | 64,882,665 |
| Net gains / losses recognized through profit or loss | (282,003) | (109,734) | 72,296 | (1,148) | 111,747 | - | - | - | - | - | (208,842) |
| Net gains / losses recognized through OCI | - | - | - | - | 133,728 | - | - | - | - | - | 133,728 |
| LIABILITIES | | | | | | | | | | | |
| Financial liabilities - held for trading | - | - | (38,391) | - | - | - | - | - | - | - | (38,391) |
| Financial liabilities - measured at amortized cost | - | - | - | - | - | (59,236,059) | - | - | - | - | (59,236,059) |
| Total financial liabilities | - | - | (38,391) | - | - | (59,236,059) | - | - | - | - | (59,274,450) |
| Net gains / losses recognized through profit or loss | - | - | 240,724 | - | - | - | - | - | - | - | 240,724 |

42. FINANCIAL INSTRUMENTS PER CATEGORY ACCORDING TO IAS 39 (continued)

| in RON thousands | 2017 | | | | | | Bank | | |
|---|-----------------------|-------------------|-----------------|--------------------------|--------------------|---|------------------|--------------|---|
| | Loans and receivables | Held to maturity | Trading | Designated at fair value | Available for sale | Financial liabilities at amortised cost | | Cash on hand | Derivatives designated as hedging instruments |
| ASSETS | | | | | | | | | |
| Cash and cash balances | 6,550,587 | - | - | - | - | - | 4,694,800 | - | 11,245,387 |
| Loans and advances to credit institutions | 2,420,035 | - | - | - | - | - | - | - | 2,420,035 |
| Loans and advances to customers | 32,020,306 | - | - | - | - | - | - | - | 32,020,306 |
| Financial assets - held for trading | - | - | 104,694 | - | - | - | - | - | 104,694 |
| Financial assets - at fair value through profit or loss | - | - | - | 15,131 | - | - | - | - | 15,131 |
| Financial assets - available for sale | - | - | - | - | 6,146,992 | - | - | - | 6,146,992 |
| Financial assets - held to maturity | - | 13,375,729 | - | - | - | - | - | - | 13,375,729 |
| Total financial assets | 40,990,928 | 13,375,729 | 104,694 | 15,131 | 6,146,992 | - | 4,694,800 | - | 65,328,274 |
| Net gains / losses recognized through profit or loss | (22,002) | 131 | 80,188 | 1,689 | (415) | - | - | - | 59,591 |
| Net gains / losses recognized through OCI | - | - | - | - | (26,442) | - | - | - | (26,442) |
| LIABILITIES | | | | | | | | | |
| Financial liabilities - held for trading | - | - | (44,661) | - | - | - | - | - | (44,661) |
| Financial liabilities - measured at amortized cost | - | - | - | - | - | (58,920,983) | - | - | (58,920,983) |
| Derivative - hedge accounting | - | - | - | - | - | - | - | - | - |
| Total financial liabilities | - | - | (44,661) | - | - | (58,920,983) | - | - | (58,965,644) |
| Net gains / losses recognized through profit or loss | - | - | 249,025 | - | - | - | - | - | 249,025 |

NOTES TO THE FINANCIAL STATEMENTS
Consolidated and Separate for the year ended 31 December 2017

42. FINANCIAL INSTRUMENTS PER CATEGORY ACCORDING TO IAS 39 (continued)

| in RON thousands | 2016 | | | | | | Bank | | |
|---|-----------------------|-------------------|-----------------|--------------------------|--------------------|---|------------------|--------------|---|
| | Loans and receivables | Held to maturity | Trading | Designated at fair value | Available for sale | Financial liabilities at amortised cost | | Cash on hand | Derivatives designated as hedging instruments |
| ASSETS | | | | | | | | | |
| Cash and cash balances | 7,326,244 | - | - | - | - | - | 4,322,634 | - | 11,648,878 |
| Loans and advances to credit institutions | 651,414 | - | - | - | - | - | - | - | 651,414 |
| Loans and advances to customers | 31,162,509 | - | - | - | - | - | - | - | 31,162,509 |
| Derivative - hedge accounting | - | - | - | - | - | - | - | - | - |
| Financial assets - held for trading | - | - | 633,199 | - | - | - | - | - | 633,199 |
| Financial assets - at fair value through profit or loss | - | - | - | 15,319 | - | - | - | - | 15,319 |
| Financial assets - available for sale | - | - | - | - | 4,845,303 | - | - | - | 4,845,303 |
| Financial assets - held to maturity | - | 12,386,197 | - | - | - | - | - | - | 12,386,197 |
| Total financial assets | 39,140,167 | 12,386,197 | 633,199 | 15,319 | 4,845,303 | - | 4,322,634 | - | 61,342,819 |
| Net gains / losses recognized through profit or loss | (219,301) | (109,741) | 72,343 | (1,148) | 111,754 | - | - | - | (146,093) |
| Net gains / losses recognized through OCI | - | - | - | - | 115,741 | - | - | - | 115,741 |
| LIABILITIES | | | | | | | | | |
| Financial liabilities - held for trading | - | - | (38,391) | - | - | - | - | - | (38,391) |
| Financial liabilities - measured at amortized cost | - | - | - | - | - | (55,825,328) | - | - | (55,825,328) |
| Derivative - hedge accounting | - | - | - | - | - | - | - | - | - |
| Total financial liabilities | - | - | (38,391) | - | - | (55,825,328) | - | - | (55,863,719) |
| Net gains / losses recognized through profit or loss | - | - | 240,724 | - | - | - | - | - | 240,724 |

43. AUDIT FEES AND TAX CONSULTANCY FEES

The following table contains audit fees and other consulting fees charged by the auditors (of BCR Bank and subsidiaries) in the financial years 2017 and 2016:

| in RON thousands | Group | | Bank | |
|--|--------------|--------------|--------------|--------------|
| | 2017 | 2016 | 2017 | 2016 |
| Fees for the audit of the financial statements and the consolidated financial statements | 2,823 | 4,226 | 2,428 | 3,885 |
| Other services involving the issuance of a report | 896 | - | 750 | - |
| Other services (non-audit fees) | 750 | 884 | 693 | 453 |
| TOTAL | 4,469 | 5,110 | 3,871 | 4,338 |

44. CONTINGENT LIABILITIES AND COMMITMENTS

| in RON thousands | Group | | Bank | |
|----------------------|-------------------|-------------------|-------------------|-------------------|
| | 2017 | 2016 | 2017 | 2016 |
| Commitments | 8,009,494 | 8,254,369 | 8,315,078 | 8,702,985 |
| Revocable | 3,238,694 | 3,282,272 | 3,584,074 | 3,761,975 |
| Irrevocable (*) | 4,770,800 | 4,972,097 | 4,731,003 | 4,941,010 |
| Financial guarantees | 3,014,797 | 2,745,106 | 3,045,642 | 2,767,239 |
| Total | 11,024,290 | 10,999,475 | 11,360,720 | 11,470,224 |

* Irrevocable commitments include an amount of RON 48,460 thousands (2016: RON 6,998 thousands) representing the Bank's obligation to sell securities which were not settled at the balance sheet date.

The Group issues letters of credit, guarantees (including standby letters of credit) and commits to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods.

Undrawn loan commitments

Undrawn loan commitments represent contractual commitments to grant loans and revolving credits. Commitments generally have fixed expiry dates or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

At the same time, the potential credit loss is less than the total unused commitments since most commitments to extend credit are contingent until the customers maintain specific standards. The Group monitors the maturity of credit commitments as longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

In the case of irrevocable commitments, the Bank undertakes to make available to the client, at any time during the contract period, the amount mentioned in the contract; in the case of the revocable commitments, the bank has no contractual obligation to continue financing the client if no longer considers it appropriate at any time (without any justification and without performing any prior formalities), subject to specific authority limits, to suspend the customer the right to make new withdrawals from the credit by simply notifying it of the measure taken in same calendar day.

LEGAL CLAIMS

As at 31 December 2017, the Bank was involved in the normal course of its business in a number of 3,885 other litigation as defendant.

In the opinion of management, after taking appropriate legal advice, the outcome of these legal claims will not give rise to any significant loss beyond the amount provided at 31 December 2017.

44. CONTINGENT LIABILITIES (continued)**Litigations related to the merger with Bancorex**

In 1999 as a result of the distressed financial situation of one of the Romanian banks having the State as majority shareholder, Banca Romana de Comerț Exterior - "Bancorex", the Government of Romania launched a series of measures designated to limit the effect of Bancorex's insolvency on the economy of Romania.

These measures included placing Bancorex under special administration for a limited period, transferring certain non-performing loans of Bancorex to an Asset Recovery Agency (AVAB) and transferring all other activities to the Bank. The Bank received Romanian government securities having similar maturity as the deposits and other creditor's accounts transferred from Bancorex.

On 6 July 2000 the Romanian Government issued the Emergency Ordinance No. 131/2000 and subsequent Decision 909/2000 stating that the Government will issue unconditional letters of guarantee in favor of the Bank against litigations up to an amount of ROL 38 billion (3.8 million RON) and USD 116 million against litigations for which the Bank is the defendant, arising from activities of the former Bancorex, before it was removed from the Register of Trade.

Based on the Emergency Ordinance No. 18/2004, all off-balance sheet, other commitments and all the risks to the Bank arising from litigations related to former Bancorex are guaranteed, remain and will be guaranteed by the State. According to the Emergency Ordinance No. 18/2004 and Government Ordinance No. 832/2004, the Ministry of Public Finance issued Letters of Guarantee for 56 litigations in which the Bank is involved following the merger with Bancorex.

After that, according to the provisions of Government Decision no 1087/2006, the value of guarantees was supplemented, by issuing of other 18 letter of guarantees for litigations resulted from Bancorex's activity.

As at 31 December 2013, the Bank requested to MFP the increasing of guarantee ceiling with EUR 402,760,385 and RON 10,791,084 resulted from Bancorex's litigation. After that, the bank's request were updated, respectively the amount was diminished until RON 1.414.605, following the favourable solutions obtained in the cases. On December 22, 2016 the bank received a final answer from Ministry of Finance through which the authority rejected the bank's claim for guarantee ceiling increasing, considering that the payment was a legal obligation of the bank and not a damage resulted from a litigation.

As at December 2017 and 31 December 2016 the bank was not involved as defendant in any case resulted from Bancorex's activity.

The audit mission of the Romanian Court of Accounts – BCR Banca pentru Locuinte (BpL)

In 2015 the Romanian Court of Accounts (hereinafter referred to as "the CoA") conducted a control at the BpL. Following the mission, the CoA claims that several deficiencies were identified, the vast majority grounded on a different interpretation of the applicable legal provisions.

On 15 December 2015, the CoA issued the Decision no. 17, maintaining all the claims included in their initial report and requested BpL to establish exactly the amount of the prejudice. On December 23, 2015, BpL appealed the Decision no. 17 of the CoA, appeal that was rejected by the Commission for Solving Claims of the CoA through Decision No 2/29 February 2016, maintaining as such the Decision no. 17.

Two actions were submitted to the Court of Appeal, Section VIII Administrative and Fiscal, as follows:

- Request of suspension of Decision no. 17/2015– approved by Bucharest Court of Appeal – therefore the effects of the Decision no. 17/2015 are currently suspended. CoA appealed this decision. No hearing date was established yet.
- An action for annulment of the decision of CoA – first hearing was set for 23 June 2016 and subsequently, several postponements of the hearings were made until 1st February 2017 when the Court postponed the decision 2 times until March 1st 2017.

On 1st of March 2017, the Court of Appeal decided in favour of BpL for 5 out of 8 claims. The 3 claims maintained have a disputed amount on closed or assigned contracts estimated by the Bank at RON 10 million (principal). Considering the likelihood of winning the respective litigation BpL did not book any related provisions as at 31 December 2016 and neither as at 31 December 2017. The motivation of the Court of Appeal issued at the date of the Financial Statements doesn't change the previous conclusion regarding the BpL chances to win the case.

There is the possibility that the case to be finally concluded until the end of the year 2018.

44. CONTINGENT LIABILITIES (continued)**Non-performing loan portfolio sale**

In 2016 and 2017 the Group sold a part of non-performing loan portfolio in several transactions. Some of them included features for contingent liabilities. Please refer to Note 38 Transfers of Financial Assets for further details.

BFP Litigation

On 23 December 2016, the BFP has received a request made by City Hall Bucharest to International Court of Arbitration of the International Chamber of Commerce, consisting of amounts due under the joint venture contract for the period from 2001 to 2013. The dispute shall be settled by a court of arbitration consisting of three arbitrators: one arbitrator appointed by each party and the third by the International Court of Arbitration. The lawyers' assessment according to which the chances of being handed a favourable arbitration award for BFP are over 50%.

No changes in the case.

Merger related litigation

In 2016, Societatea de Investitii Financiare Oltenia SA filed a claim against BCR requesting the cancellation of the Extraordinary General Shareholders' Meeting decision approving the merger between BCR, BFP and BCR REM. On November 22nd, 2017, the Court rejected irrevocably the claim filed by SIF Oltenia. On January 2018 SIF Oltenia filed an appeal against this decision, however as described in Note 32 Issued capital, the merger between BCR, BFP and BCR REM was approved by Bucharest Tribunal on 30 January 2017, the decision regarding the authorization of the BCR-REM-BFP Merger was issued on 20 July 2017, and as a result of this operation, REM and BFP were dissolved and de-registered on August 1st 2017.

Tax related litigation

During May 3, 2016 – June 9, 2017, BCR was subject to a tax audit with the purpose of verifying the corporate income tax and value added tax related to the period January 1, 2012 – December 31, 2015. The main topic analysed by the Romanian Tax Authority was the intragroup transactions performed by BCR with its related parties during the period under investigation, with a focus on financial transactions.

Following the tax audit performed, the Romanian Tax Authority increased Corporate Income Tax Expense in amount of RON 102,581,852 as at 30 June 2017 for the audited period 2012 – 2015. The additional Corporate Income Tax Liability was settled against existing balance of Corporate Income Tax Receivable as at 30 June 2017.

However, the Bank does not agree with the Romanian Tax Authority's approach and conclusions in establishing additional Corporate Income Tax Liability. The Bank's management considered that original fiscal treatment applied by the Bank is correct and that there are strong arguments against the Romanian Tax Authority conclusions. As such, the Bank's management decided to challenge the tax audit results by using available legal means.

The Bank's Management view, based on the tax and legal advisers of the Bank, is that there are more chances than not that the Bank will win in the Court of Law against the Romanian Tax Authority.

Given the decision of the Romanian Tax Authority described above, the Bank analysed the need to record a provision for a potential obligation regarding additional Corporate Income Tax Liability for the period 2016 – 2017. However, given the assessment performed by the Bank's management it was concluded that it is not probable that an outflow of economic benefits will be required to settle an obligation arising from the fiscal treatment of intragroup transactions adopted by the Bank for 2016 and 2017 and therefore, no provision has been recognized.

Due to uncertainties related to the settlement of the ongoing litigation with the Romanian Tax Authority, the Management of the Bank is unable to estimate the timing of any potential outflow related to this topic.

45. SPLIT BETWEEN CURRENT AND NON-CURRENT ASSETS AND LIABILITIES

The tables below show an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

| in RON thousands | Group | | | |
|--|-------------------|-------------------|-------------------|-------------------|
| | December 2017 | | December 2016 | |
| | Current | Non - current | Current | Non - current |
| Cash and cash balances | 11,369,344 | - | 11,911,895 | - |
| Financial assets - held for trading | 22,417 | 82,277 | 502,952 | 130,247 |
| Derivatives | 8,380 | 33,069 | 9,431 | 64,055 |
| Other trading assets | 14,037 | 49,208 | 493,521 | 66,192 |
| Financial assets - designated at fair value through profit or loss | - | 15,131 | - | 15,319 |
| Financial assets - available-for-sale | 1,835,560 | 4,764,390 | 721,617 | 4,852,470 |
| Financial assets - held to maturity | 728,748 | 14,028,146 | 1,745,142 | 12,159,059 |
| Loans and receivables to credit institutions | 106,545 | 2,108,568 | 524,200 | 28,630 |
| Loans and receivables to customers | 10,017,818 | 23,473,065 | 7,214,238 | 25,076,896 |
| Property and equipment | - | 1,315,683 | - | 1,472,604 |
| Investment properties | - | 121,490 | - | 422 |
| Intangible assets | - | 320,872 | - | 289,304 |
| Investments in associates and joint ventures | - | 17,375 | - | 16,568 |
| Tax assets | - | 86,736 | 162,480 | - |
| Deferred tax assets | - | 168,778 | - | 322,508 |
| Non-current assets and disposal groups classified as held for sale | 43,039 | - | 2,292 | - |
| Other assets | 164,858 | 140,399 | 194,539 | 171,191 |
| TOTAL ASSETS | 24,288,329 | 46,642,910 | 22,979,355 | 44,535,218 |
| Financial liabilities - held for trading | 17,462 | 27,199 | 9,470 | 28,921 |
| Derivatives | 17,462 | 27,199 | 9,470 | 28,921 |
| Other trading liabilities | - | - | - | - |
| Financial liabilities measured at amortised cost | 50,257,402 | 11,749,665 | 46,108,822 | 13,127,237 |
| Deposits from banks | 2,184,316 | 5,641,874 | 3,112,574 | 6,542,099 |
| Deposits from customers | 46,730,459 | 5,765,603 | 42,165,551 | 6,069,647 |
| Debt securities issued | 197,460 | 342,188 | 121,701 | 515,491 |
| Other financial liabilities | 1,145,167 | - | 708,996 | - |
| Provisions | 42,826 | 1,149,739 | 32,063 | 1,072,039 |
| Current tax liabilities | 230 | - | 1,262 | - |
| Deferred tax liabilities | - | 25 | - | 3,966 |
| Liabilities associated with assets held for sale | 12,819 | - | - | - |
| Other liabilities | 234,759 | - | 325,475 | 929 |
| TOTAL LIABILITIES | 50,565,498 | 12,926,628 | 46,477,092 | 14,233,092 |

The amounts over one year related to the derivatives classified in the category "held for trading" are hedging instruments from an economic but not from accounting point of view.

45. SPLIT BETWEEN CURRENT AND NON-CURRENT ASSETS AND LIABILITIES (continued)

| | Bank | | | |
|--|-------------------|-------------------|-------------------|-------------------|
| | December 2017 | | December 2016 | |
| | Current | Non - current | Current | Non - current |
| in RON thousands | | | | |
| Cash and cash balances | 11,245,387 | - | 11,648,878 | - |
| Financial assets - held for trading | 22,417 | 82,277 | 502,952 | 130,247 |
| Derivatives | 8,380 | 33,069 | 9,431 | 64,055 |
| Other trading assets | 14,037 | 49,208 | 493,521 | 66,192 |
| Financial assets designated at fair value through profit or loss | - | 15,131 | - | 15,319 |
| Financial assets - available for sale | 1,531,251 | 4,615,741 | 288,443 | 4,556,860 |
| Financial assets - held to maturity | 683,905 | 12,691,824 | 1,587,333 | 10,798,864 |
| Loans and receivables to credit institutions | 311,468 | 2,108,567 | 545,284 | 106,130 |
| Loans and receivables to customers | 9,385,601 | 22,634,705 | 7,221,104 | 23,941,405 |
| Property and equipment | - | 1,015,988 | - | 1,158,548 |
| Investment properties | - | 121,490 | - | - |
| Intangible assets | - | 314,231 | - | 280,699 |
| Investments in associates | - | 7,509 | - | 7,509 |
| Tax assets | - | 83,435 | 159,029 | - |
| Deferred tax assets | - | 157,361 | - | 310,554 |
| Non-current assets and disposal groups classified as held for sale | 14,792 | - | 2,292 | - |
| Other assets | 39,160 | 652,245 | 45,484 | 761,291 |
| TOTAL ASSETS | 23,233,981 | 44,500,504 | 22,000,799 | 42,067,426 |
| Financial liabilities held for trading | 17,462 | 27,199 | 9,470 | 28,921 |
| Derivatives | 17,462 | 27,199 | 9,470 | 28,921 |
| Other trading liabilities | - | - | - | - |
| Financial liabilities measured at amortised cost | 49,670,672 | 9,250,311 | 45,388,337 | 10,436,991 |
| Deposits from banks | 2,627,169 | 4,762,464 | 3,336,893 | 5,788,202 |
| Deposits from customers | 45,739,499 | 4,145,659 | 41,221,611 | 4,133,298 |
| Debt securities issued | 197,460 | 342,188 | 121,701 | 515,491 |
| Other financial liabilities | 1,106,544 | - | 708,132 | - |
| Provisions | - | 1,149,625 | - | 1,069,547 |
| Other Liabilities | 174,559 | - | 242,726 | - |
| TOTAL LIABILITIES | 49,862,693 | 10,427,135 | 45,640,533 | 11,535,459 |

The amounts over one year related to those derivatives classified in the category "held for trading" which are hedging instruments from an economic but not from accounting point of view.

46. OWN FUNDS AND CAPITAL REQUIREMENTS
Own funds disclosure
Regulatory Requirements

Since 1 January 2014, BCR Group has been calculating the regulatory capital and the regulatory capital requirements according to Basel 3. The requirements have been implemented within the EU by the CRR and the CRD IV as well as within various technical standards issued by European Bank Authority, which were enacted in national law in the National Bank of Romania, Regulation No 5/2013.

All requirements as defined in the CRR, the NBR and the aforementioned technical standards are fully applied by BCR Group.

| in RON thousands | Group | | Bank | |
|---|-------------------|-------------------|-------------------|-------------------|
| | 2017 | 2016 | 2017 | 2016 |
| Tier 1 Capital | 6,175,579 | 6,320,117 | 6,228,183 | 6,316,806 |
| Tier 2 Capital | 1,017,698 | 1,457,664 | 949,952 | 1,339,135 |
| Total own funds | 7,193,277 | 7,777,782 | 7,178,135 | 7,655,941 |
| Risk Weighted Exposure Amounts For Credit, Counterparty Credit And Dilution Risks And Free Deliveries | 26,153,334 | 25,021,661 | 24,760,579 | 23,641,896 |
| Total Risk Exposure Amount for Position, Foreign Exchange and Commodities Risks | 163,507 | 238,716 | 56,197 | 109,916 |
| Total Risk Exposure Amount for Operational Risk | 9,242,799 | 7,451,668 | 8,832,008 | 7,031,484 |
| Total Risk Exposure Amount for Credit Valuation Adjustment | 16,177 | 37,706 | 16,177 | 37,706 |
| Total Risk Exposure Amount | 35,575,816 | 32,749,751 | 33,664,960 | 30,821,002 |
| Capital Ratios | | | | |
| Total capital ratio | 20.22% | 23.09% | 21.32% | 24.14% |
| T1 Capital ratio | 17.36% | 18.64% | 18.50% | 19.79% |



47. COUNTRY BY COUNTRY REPORTING

| Country | 2017 | | | | Group |
|--------------|------------------|---|------------------|------------|------------|
| | Operating income | Pre-tax result from continuing operations | Taxes on income | Taxes paid | |
| Romania | 2,867,984 | 901,363 | (237,091) | | 547 |
| Moldova | 19,897 | 3,772 | 83 | | - |
| Total | 2,887,881 | 905,135 | (237,008) | | 547 |

| Country | 2016 | | | | Group |
|--------------|------------------|---|------------------|------------|---------------|
| | Operating income | Pre-tax result from continuing operations | Taxes on income | Taxes paid | |
| Romania | 2,842,993 | 1,161,861 | (130,646) | | 36,846 |
| Moldova | 25,173 | 8,630 | 218 | | - |
| Total | 2,868,166 | 1,170,491 | (130,428) | | 36,846 |

48. EVENTS AFTER THE BALANCE SHEET DATE

No subsequent events occurred after the reporting period.

| | |
|--|---|
| <p>AUTHORISED PERSON, First name and name Signature</p>  <p>President, Sergiu Manca</p> | <p>AUTHORISED PERSON, First name and name Signature</p> <p>Executive Director Accounting Division, Gina Badea</p>  |
|--|---|



BANCA COMERCIALA ROMANA S. A.
Nr. Cabinet Presedinte
Consiliul de Supraveghere

ADMINISTRATORS' REPORT
Banca Comerciala Romana
Year ended 31 December 2017

Separate and Consolidated

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1 Macroeconomic developments

Economic growth was very strong at 7% y/y in January – September 2017, boosted by trade and services, industry and agriculture. Construction work was negative, mainly due to low public investments in infrastructure. Favourable weather conditions along with investments from previous years supported the increase in agricultural production and yields per hectare for main crops reached record highs in the summer and autumn of 2017. Industrial production was driven by the export-oriented manufacturing sector and in particular by the capital goods and intermediate goods industries. The improvement of the labour market, with a double-digit increase in nominal wages and further growth in the number of employees, was clearly visible in the evolution of retail sales, which expanded rapidly, especially in the segment of non-food items.

In 2017, the inflation rate increased significantly from 0.05% y/y in January to 3.32% y/y in December, due to a statistical effect (the VAT rate was cut by 4pp in 2016), the increase in the administered energy price and fuel prices. The National Bank of Romania maintained an accommodative monetary policy and the key rate were left unchanged at 1.75% throughout 2017. The decisions of other central banks in the CEE region and of the European Central Bank to keep interest rates at low levels along with the need to prevent an unwanted appreciation of the RON were important arguments in this respect. Minimum reserves for RON liabilities of credit institutions were also unchanged at 8%, while those for FX liabilities were reduced to 8% in May 2017 (-2pp). The monetary policy transmission mechanism was strengthened through a narrowing of the symmetrical corridor of interest rates for the deposit and lending facilities to 100bp around the key rate in November 2017, from 150bp in January 2017.

Market interest rates were on the rise in 2017, with the 3M ROBOR ending the year at 2.05%, from 0.87% at the beginning of January. A sudden tightening of the liquidity conditions in the market in the autumn and the central bank's pledge to follow 'firm liquidity management in the banking system' instead of 'adequate' were key factors that pushed up short-term money market rates. RON bond yields followed the same pattern, ending 2017 at much higher levels than in January.

In 2017, RON was an underperformer compared with other national currencies in the CEE region, losing 3.1% to the euro in cumulative terms, according to the central bank's FX rates. A wider current account deficit in the context of a rapid increase in imports of goods put pressure on the RON, which was also affected by the central bank's statement in favour of greater flexibility of FX rates, but more stable interest rates.

The cash budget deficit was 2.88% of GDP in 2017, even in the context of a loose fiscal policy followed by the government. The inclusion of some one-off revenue items like extraordinary dividends distributed by SOEs from retained earnings, the reduction of public expenditures on goods and services and low allocations for public investments helped the government to achieve the 3% budget deficit target under local accounting standards.

The local currency issuance target of the Ministry of Finance was undershot in 2017 (84% effective issuance vs. the plan), as debt managers rejected all auctions in October and were selective in accepting investor bids on other occasions when yields were on the rise or demand was poor.

Important events since the end of 2017

Confronted with the prospect of an additional increase in inflation in 2018, the National Bank of Romania decided to hike the key rate to 2% at the beginning of January (+25bp).

In mid-January 2018, the Social Democrat Party decided to withdraw the political support for Prime Minister Mihai Tudose and he resigned shortly thereafter. A new government headed by former member of the European Parliament Viorica Dancila won a confidence vote in the Parliament at the end of January 2018 and an updated version of the governing program was presented on that occasion.

2 General presentation

Banca Comerciala Romana (BCR) was established in 1990, when it took over the commercial operations of the National Bank of Romania. Today, BCR Group (member of Erste Group) is the most important financial group in Romania, including universal banking operations (retail, corporate & investment banking, treasury and capital markets) as well as leasing companies, private pension and housing banks.

The Bank offers a complete range of financial services and financial solutions dedicated to each stage of the financial cycle in a lifetime, as a "one-stop shop": savings, investment, lending, consulting and advisory, leasing. BCR encourages long-term relationships with its clients belonging to all segments, offers affordable and transparent products, but also personalized consulting services.

Products & Services

BCR serves the following groups of clients:

Private Individuals: BCR supports its customers to fulfil their aspirations, insuring their current and future financial well-being. BCR offers a full range of services and products, from real estate financing (mortgages), personal loans, personal accounts (including packages for entrepreneurs, students, NGOs and Foundations), debit and credit cards, investment and savings products, consultancy and sale of treasury products and financial market to private individual customers. BCR offers full Internet banking, Mobile Banking, Phone banking and E-commerce services.

Small and Medium Enterprises as well as large companies: As a leader in many banking areas, BCR plays a key role on the commercial companies segment by offering customized products, specialized programs and advice to micro-enterprises, small and medium-sized businesses as well as for large commercial companies.

Municipal authorities, public and non-profit sector: Thanks to the long and solid relationship with municipal authorities, as well as with the public and non for profit sector, BCR became the first choice for dedicated financial solutions (including special funding for infrastructure projects at national, regional and municipal level).

Network

BCR offers a full range of financial products and services through a network of 22 business centres and 22 mobile offices dedicated to companies and 507 retail units located in the majority cities with a population of over 10,000 inhabitants from all across the country.

BCR is the no. 1 bank on the Romanian market for banking-transaction, having the largest national ATM network over 2,500 automatic teller machines and POS - 17,800 card payment terminals to merchants.

Bank and subsidiaries

During 2017, Banca Comerciala Romana Group ("BCR Group" or "the Group") comprised the parent bank, Banca Comerciala Romana S.A. and its subsidiaries, presented in the following table:

| Company's Name | Country of incorporation | Nature of the business | Shareholding | |
|---|--------------------------|-----------------------------|------------------|------------------|
| | | | 31 December 2017 | 31 December 2016 |
| BCR Chisinau SA | Moldova | Banking | 100.00% | 100.00% |
| BCR Leasing IFN SA | Romania | Financial leasing | 99.97% | 99.97% |
| BCR Pensii, Societate de Administrare a Fondurilor de Pensii Private SA | Romania | Pension Fund | 99.99% | 99.99% |
| BCR Banca pentru Locuinte SA | Romania | Housing loans | 99.99% | 80.00% |
| Suport Colect SRL | Romania | Workout | 99.99% | 99.99% |
| CIT One SRL | Romania | Cash processing and storing | 100.00% | 100.00% |
| BCR Fleet Management SRL* | Romania | Operational leasing | 99.97% | 99.97% |
| BCR Payments Services SRL | Romania | Payments transactions | 99.99% | 99.99% |

* Company held indirectly by BCR through BCR Leasing SA

3 2017 financial and commercial highlights¹

Highlights by CEO of BCR, Sergiu Manea

„When measuring our success in 2017, I look upon what is the impact we achieved in enabling prosperity and acting as a responsible bank. I wish we did more, and I am convinced we can do much more as long as continue to learn from our clients about what matters every day for them. That notwithstanding I am deeply thankful to our clients and employees for enabling our good results in 2017: good quality business growth, expanding BCR's balance sheet into high economic and social impact sectors, concrete results in financial education.

The economy evolved strongly in 2017 and it was driven not only by a sustained revival of consumption, but also by strong industrial production, agriculture and services, where BCR has substantially outgrew the market in financing small and medium enterprises. BCR engaged and will continue to engage in supporting the Start UP Nation program as we believe it is important for the country and the local entrepreneurial culture.

In 2018 we expect the economic growth to maintain a solid pace around 5%, incomes to grow at a moderate pace and unemployment to stay low, but we also see risks in the financial markets. That is why we will focus our expertise on servicing our clients with long term financial planning and protection of their household budget. Thus, our offering will prioritize lending in local currency, fixed instalments and compelling insurance options for clients.

Not least, BCR will keep investing in digitally enabled modern service and processes for a more convenient banking experience. Technological innovation and new skills are transforming the way service is delivered and experienced and I am happy to note BCR not only grew significantly the number of new digital service clients, but also moved towards digital service ecosystems such as app based car sharing service eGO.

The overall banking environment is set to see good competition and consolidation. It remains paramount that competition and free market reign the functioning of the system, as it is for the banking system to understand its responsibility towards Romania's economic resilience. BCR is committed to a substantial and constructive dialogue on building the entire country's capacity and confidence to capitalize on the major development opportunities: infrastructure, education, technology, quality of housing and health.”

Full year 2017 commercial and financial highlights

Banca Comerciala Romana (BCR) recorded in 2017 an **operating result of RON 1,343.7 million (EUR 294.1 million)**, 3.5% higher than the previous year, driven by higher operational revenues and more efficient spending. The bank achieved thus a net profit **RON 668.1 million (EUR 146.2 million)** supported by business development and continuous improvement of the portfolio quality.

In 2017 BCR granted new retail and corporate loans totalling RON 8.1 billion. This led to an advance in the stock of net loans to customers of 3.7% year-on-year.

In retail banking business, BCR granted new loans totalling RON 5.5 billion, with solid sales of unsecured and secured loans - mainly due to “Divers” cash loan with fixed instalments, whose sales

¹The financial information presented in this chapter represents, consolidated results of Banca Comerciala Romana Group for the year 2017. Unless otherwise stated, the financial results for the year 2017 are comparable to financial results for the full year 2016. Also, if not stated otherwise, foreign exchange rates used for conversion of figures into EURO are the ones provided by the European Central Bank. The income statement is converted using the average exchange rate for the full year 2017 of 4.5686 RON/EUR when referring to the full year 2017 results and using the average exchange rate for the full year 2016 of 4.4901 RON/EUR when referring to full year 2016 results. The balance sheets at 31 December 2017 and at 31 December 2016 are converted using the closing exchange rates at the respective dates (4.6585 RON/EUR at 31 December 2017 and 4.5390 RON/EUR at 31 December 2016, respectively). All the percentage changes refer to RON figures.

recorded an increase of 7% year-on-year. According to our surveys, most of the personal needs loans went to dwelling refurbishment (56%), purchase of a car (14%) and purchase of furniture (10%).

Significantly, last year, **over 10,000 families in Romania opted to acquire a house through BCR**, choosing either the "Prima Casa" programme or the standard BCR mortgage loan "Casa Mea", the latter recording in the fourth quarter an advance in sales of over 77% as compared to the same period of last year.

Overall, this translated into **net retail loan portfolio of the bank growing by 5.1% year-on-year**.

BCR also marked in 2017 a series of substantial increases in electronic and digital operations - 78% YOY more Mobile Banking customers and 32% YOY more Internet Banking customers.

In corporate banking business, new volumes added on the balance sheet totalled RON 2.6 billion. There was a significant increase of 16.8% year-on-year in SME financing (small and medium-sized enterprises), as a result of the proactive strategy of supporting local entrepreneurs. Under corporate financing, BCR is involved in several key sectors for the Romanian economy, such as the automotive, agriculture, energy and logistics. Co-financing of EU funded projects increased over the last year, BCR holding a significant market share and a portfolio of over RON 8.0 billion granted co-financings.

Overall, this translated into net corporate loans portfolio of the bank growing by 1.7% year-on-year.

In 2017, BCR was also successful in improving customer satisfaction as a result of its on-going efforts to streamline processes, to implement new service models and to develop its products' offer and multi-channel distribution.

Profit & loss developments

Net interest income was down by 1.3% to **RON 1,764.2 million** (EUR 386.2 million) from RON 1,786.7 million (EUR 397.9 million) in 2016, on the back of continued NPL portfolio resolution and sustained efforts to price competitively in the market.

Net fee income was down by 1.2% to **RON 700.7 million** (EUR 153.4 million) from RON 708.9 million (EUR 157.9 million) in 2016, on the back of lower transaction banking fees, partially compensated by higher brokerage fees from subsidiaries.

Net trading and fair value result increased by 12.8% to **RON 354.7 million** (EUR 77.6 million) from RON 314.3 million (EUR 70.0 million) in 2016.

The **operating income** increased by 0.7% to **RON 2,887.9 million** (EUR 632.1 million) from RON 2,868.2 million (EUR 638.8 million) in 2016, driven by higher trading result.

General administrative expenses in 2017 dropped by 1.7% to **RON 1,544.2 million (EUR 338.0 million)** from RON 1,570.5 million (EUR 349.8 million) in 2016.

As such, **cost-income ratio** improved to **53.5%** in 2017 versus 54.8% in 2016.

Risk cost and Asset Quality

In terms of **net charge of impairments on financial assets not measured at fair value through profit and loss**, BCR recorded a low provision allocation of **RON 32.4 million** (EUR 7.1 million) in 2017, versus a release of RON 280.0 million (EUR 62.4 million) in 2016, on the back of natural developments in risk provisioning.

The **NPL ratio**² stood at **8.1%** as of 31 December 2017, significantly lower versus 11.8% as of 31 December 2016, due to the constant efforts in recent years for the overall reduction of the NPL book through recoveries, sales of selected NPL portfolios and write-offs. **NPL provision coverage ratio comfortably stood at 92.7%**, while, collateral included, it stood at 128.5%.

² Starting Dec-14 reported in compliance with draft EBA NPE definition.

Capital position and funding

Solvency ratio³ under local standards (BCR standalone) as of December 2017, stood at **21.3%**, well above the regulatory requirements of the National Bank of Romania. Also, IFRS **Tier 1+2 capital ratio** of **20.2%** (BCR Group) as of December 2017 is clearly showing BCR's strong capital adequacy and continuing support of Erste Group. In this respect, BCR enjoys one of the strongest capital and funding positions amongst Romanian banks.

BCR will continue to maintain high solvency ratio, proving its ability and commitment to support sustainable quality of lending growth in both Retail and Corporate franchises, further reinforcing core revenue generating capacity.

Deposits from customers grew by 8.8% to **RON 52,496.1 million** (EUR 11,268.9 million) at 31 December 2017, versus RON 48,235.2 million (EUR 10,626.8 million) at 31 December 2016, driven by both retail and corporate deposits. Customer deposits remain BCR's main funding source, while the bank benefits from diversified funding sources, including parent company.

BCR focuses on lending in RON, already succeeding to reverse the currency mix of the loan book in favour of local currency and fully use the strong self-funding capacity in RON.

BCR Rating developments

In March 2017, Fitch upgraded BCR's Long-Term Issuer Default Ratings (IDRs) to 'BBB+' from 'BBB', with stable outlook. The upgrade was driven by the rating action taken by Fitch on Erste one week before, when Erste's IDR was upgraded to 'A-' from 'BBB+'. In October 2017 Fitch affirmed BCR's long term issuer default ratings (IDRs) maintaining the stable outlook, and at the same time BCR's viability rating (VR) was upgraded to 'bb+' from 'bb'. The upgrade reflects a further loan book clean up and increased reserve coverage of the NPL book, as well as extended record of good profitability.

³ Solvency ratio and tier 1+2 capital ratio do not include the net profit of 2017.

4 Outlook for BCR's activity in 2018

4.1 2018 expected macroeconomic impact

In 2018, the positive development of the Romanian economy should be reflected in a growth rate (real GDP) of 4.1% according to latest BCR forecast, however slowing down after the record growth registered in 2017. Nevertheless, the growth should continue to be mainly driven by domestic demand in general and particularly by private consumption.

4.2 Balance Sheet developments

In the current context, BCR Group expects in 2018 a mid-single digit **net loan** growth supported by both retail and corporate segments.

The growth in **net retail loans** is assumed to be driven by double digit growth in cash loans coupled with high single digit increase in mortgage lending, the latter gradually shifting the mix composition towards a higher share of standard housing loans. Nevertheless, the sales of "Prima Casa" loans will also remain significant. **Corporate lending** growth will be largely backed by strong increase in the SME and commercial real estate segments, while maintaining an adequate rating structure.

On the liabilities side, BCR will continue to capitalize on its very strong **customer deposit** base. BCR will continue to drive a structural shift in the BS by further increasing the share of demand deposits / current accounts while gradually decreasing the intra-group long term funding, especially in EUR. These actions are in line with the Bank's strategy to focus on local currency lending by relying on its strong self-funding capacity in RON. Both retail and corporate deposits are expected to broadly be in line with the forecasted market growth.

4.3 Profit and loss developments

Net interest income is expected to get back on the increasing path starting with 2018. Both volumes and net interest margin increase coming from the above-mentioned structural changes will likely contribute to a mid to high single digit increase in net interest income. BCR also counts on a positive impact from increasing market rates in the coming years.

Net fee and commission income, the second key income component, is expected to decrease in 2018. On the retail side, the decrease will be driven by transaction fees partly compensated by increase in volume driven fees (lending and insurance products). On the corporate side, the SME segment will be the main contributor to fee income. The revenues from fees will remain under pressure due to regulatory environment and tougher pricing competition.

All in all, the **operating income** should grow by low single digit in 2018, with NII remaining the biggest contributor.

Operating expenses are expected to slightly rise in 2018 on the back of significant investments for Erste Group/local projects and personnel expenses (CLA renegotiation). The investments are necessary to secure BCR Group's future competitiveness and ensure compliance with various regulatory requirements.

Risk costs should again support net profit in 2018, with expected recoveries in retail to cover allocations and slightly lower risk cost for corporate against 2017. All in all, this will result in a certain amount of risk allocations, with the risk cost ratio tending towards a normalized evolution on the back of improved asset quality and further reduction of the NPL stock.

Based on the above-mentioned expected performance, BCR Group aims to deliver a return on equity (**ROE**) of low double digit in 2018.

5 Statement of financial position of the Group and of the BCR

5.1 Statement of compliance

As of 31 December 2017, BCR prepared separate and consolidated financial statements, in compliance with the Accounting Law no. 82/1991, with its subsequent amendments and supplements and with the National Bank of Romania Order no. 27/2010 for approval of Accounting Regulations compliant with International Financial Reporting Standards applicable to credit institutions.

Order no. 27/2010 of the National Bank of Romania further specifies that the separate and consolidated financial statements of credit institutions must be prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union.

Consequently, the separate and consolidated financial statements of the BCR Group for the year ended 31 December 2017 were prepared in accordance with IFRS, observing also the specific group accounting policies of Erste Group, to which BCR Group belongs.

5.2 Assets

Total assets of BCR as at 31 December 2017 amounted to RON 67,734,485 thousands, increasing by 5.7% compared to 31 December 2016 (RON 64,068,225 thousands). At Group level, the total assets increased by 5.1% from RON 67,514,573 thousands as at 31 December 2016 to RON 70,931,239 thousands as at 31 December 2017.

In EUR equivalent, total bank's assets at 31 December 2017 represent 14,536.2 million, compared to EUR 14,108.5 million as at 31 December 2016 (converted at the exchange rates at the end of each corresponding financial year). The growth of total assets in EUR equivalent is lower due to the increase of the EUR-RON exchange rate by 2.6% at 2017 year end compared to the 2016 year end.

| Assets – Group | | | | thousand RON |
|----------------|------------|------------|------------|--------------|
| 2013 | 2014 | 2015 | 2016 | 2017 |
| 66,728,797 | 61,624,614 | 62,360,016 | 67,514,573 | 70,931,239 |

| Assets – Bank | | | | thousand RON |
|---------------|------------|------------|------------|--------------|
| 2013 | 2014 | 2015 | 2016 | 2017 |
| 63,509,963 | 59,037,134 | 59,460,913 | 64,068,225 | 67,734,485 |

| ASSETS in RON thousands | Group | | | Bank | | |
|--|------------|------------|----------------|------------|------------|----------------|
| | 31.12.2017 | 31.12.2016 | 2017/ 2016% | 31.12.2017 | 31.12.2016 | 2017/ 2016% |
| Cash and cash balances | 11,369,344 | 11,911,895 | -4.6% | 11,245,387 | 11,648,878 | -3.5% |
| Financial assets - held for trading | 104,694 | 633,199 | -83.5% | 104,694 | 633,199 | -83.5% |
| <i>Derivatives</i> | 41,449 | 73,486 | -43.6% | 41,449 | 73,486 | -43.6% |
| <i>Other trading assets</i> | 63,245 | 559,713 | -88.7% | 63,245 | 559,713 | -88.7% |
| Financial assets designated at fair value through profit or loss | 15,131 | 15,319 | -1.2% | 15,131 | 15,319 | -1.2% |
| Financial assets - available for sale | 6,599,950 | 5,574,087 | 18.4% | 6,146,992 | 4,845,303 | 26.9% |
| Financial assets - held to maturity | 14,756,894 | 13,904,201 | 6.1% | 13,375,729 | 12,386,197 | 8.0% |
| Loans and receivables to credit institutions | 2,215,113 | 552,830 | 300.7% | 2,420,035 | 651,414 | 271.5% |
| Loans and receivables to customers | 33,490,883 | 32,291,134 | 3.7% | 32,020,306 | 31,162,509 | 2.8% |
| Property and equipment | 1,315,683 | 1,472,604 | -10.7% | 1,015,988 | 1,158,548 | -12.3% |
| Investment properties | 121,490 | 422,286 | 89.1% | 121,490 | - | - |
| Intangible assets | 320,872 | 289,304 | 10.9% | 314,231 | 280,699 | 11.9% |
| Investments in associates | 17,375 | 16,568 | 4.9% | 7,509 | 7,509 | 0.0% |
| Current tax assets | 86,736 | 162,480 | -46.6% | 83,435 | 159,029 | -47.5% |
| Deferred tax assets | 168,778 | 322,508 | -47.7% | 157,361 | 310,554 | -49.3% |

| ASSETS | Group | | | Bank | | |
|--|-------------------|-------------------|----------------|-------------------|-------------------|----------------|
| | 31.12.2017 | 31.12.2016 | 2017/ 2016% | 31.12.2017 | 31.12.2016 | 2017/ 2016% |
| in RON thousands | | | | | | |
| Non-current assets and disposal groups classified as held for sale | 43,039 | 2,292 | 1777.8% | 14,792 | 2,292 | 545.4% |
| Investments in subsidiaries | - | - | - | 533,510 | 622,150 | -14.2% |
| Other assets | 305,257 | 365,730 | -14.0% | 157,895 | 184,625 | -14.5% |
| TOTAL ASSETS | 70,931,239 | 67,514,573 | 5.1% | 67,734,485 | 64,068,225 | 5.7% |

At the end of 2016, Banca Comerciala Romana absorbed 2 companies, part of BCR Group: BCR Real Estate Management SRL and Bucharest Financial Piazza SRL. The main activity of the subsidiaries absorbed was management of real estate assets.

At the merger date, the total assets position of the parent company Banca Comerciala Romana, was impacted as follows:

- Loans and receivables to customers decreased by RON 776,558 thousands, representing 2 loans granted by BCR to its subsidiaries;
- Property and equipment increased by RON 839,567 thousands, representing the transfer of real estate properties from the subsidiaries to BCR;
- Other assets decreased by RON 161,178 thousands, mainly from the elimination of the participation in the subsidiaries absorbed.

5.3 Liabilities and equity

| LIABILITIES AND EQUITY | Group | | | Bank | | |
|---|-------------------|-------------------|----------------|-------------------|-------------------|----------------|
| | 31.12.2017 | 31.12.2016 | 2017/ 2016% | 31.12.2017 | 31.12.2016 | 2017/ 2016% |
| in RON thousands | | | | | | |
| LIABILITIES | | | | | | |
| Financial liabilities held for trading (Derivatives) | 44,661 | 38,391 | 16.3% | 44,661 | 38,391 | 16.3% |
| Financial liabilities measured at amortised costs | 62,007,067 | 59,236,059 | 4.7% | 58,920,983 | 55,825,328 | 5.5% |
| <i>Deposits from banks</i> | 3,390,351 | 5,132,627 | -33.9% | 4,180,001 | 5,626,083 | -25.7% |
| <i>Borrowings and financing lines</i> | 2,064,340 | 2,177,267 | -5.2% | 838,133 | 1,154,233 | -27.4% |
| <i>Deposits from customers</i> | 52,496,062 | 48,235,198 | 8.8% | 49,885,158 | 45,354,909 | 10.0% |
| <i>Debt securities issued</i> | 539,648 | 637,192 | -15.3% | 539,648 | 637,192 | -15.3% |
| <i>Subordinated loans</i> | 2,371,499 | 2,344,779 | 1.1% | 2,371,499 | 2,344,779 | 1.1% |
| <i>Other financial liabilities</i> | 1,145,167 | 708,996 | 61.5% | 1,106,544 | 708,132 | 56.3% |
| Provisions | 1,192,565 | 1,104,102 | 8.0% | 1,149,625 | 1,069,547 | 7.5% |
| Current tax liabilities | 230 | 1,262 | -81.8% | - | - | - |
| Deferred tax liabilities | 25 | 3,966 | -99.4% | - | - | - |
| Liabilities associated with disposal groups held for sale | 12,819 | - | 100.0% | - | - | - |
| Other Liabilities | 234,759 | 326,404 | -25.3% | 174,559 | 242,726 | -28.1% |
| Total equity | 7,439,113 | 6,804,389 | 9.3% | 7,444,657 | 6,892,233 | 8.0% |
| <i>Share capital</i> | 2,952,565 | 2,952,565 | 0.0% | 2,952,565 | 2,952,565 | 0.0% |
| <i>Retained earnings</i> | 2,667,530 | 1,977,946 | 34.9% | 2,654,299 | 2,083,989 | 27.4% |
| <i>Other reserves</i> | 1,819,018 | 1,873,878 | -2.9% | 1,837,793 | 1,855,679 | -1.0% |
| Attributable to non-controlling interest | 36 | 25,397 | -99.9% | - | - | - |
| Attributable to owners of the parent | 7,439,077 | 6,778,992 | 9.7% | - | - | - |
| TOTAL LIABILITIES AND EQUITY | 70,931,239 | 67,514,573 | 5.1% | 67,734,485 | 64,068,225 | 5.7% |

At the merger date (31 December 2016), the liabilities and equity of the parent company Banca Comerciala Romana were impacted as follows:

- Deposit from customers decreased by RON 37,551 thousands, representing current accounts of subsidiaries to BCR.
- Equity decreased by RON 42,871 thousands.

6 Income statement

| in RON thousands | Group | | | Bank | | |
|---|--------------------|--------------------|----------------|--------------------|--------------------|----------------|
| | 31.12.2017 | 31.12.2016 | 2017/ 2016% | 31.12.2017 | 31.12.2016 | 2017/ 2016% |
| <i>Interest income</i> | 2,236,504 | 2,368,200 | -5.6% | 2,078,763 | 2,226,843 | -6.6% |
| <i>Interest expense</i> | (472,307) | (581,505) | -18.8% | (400,036) | (500,380) | -20.1% |
| Net interest income (1) | 1,764,197 | 1,786,695 | -1.3% | 1,678,727 | 1,726,463 | -2.8% |
| <i>Fee and commission income</i> | 845,336 | 839,312 | 0.7% | 792,218 | 792,814 | -0.1% |
| <i>Fee and commission expense</i> | (144,598) | (130,380) | 10.9% | (131,059) | (120,728) | 8.6% |
| Net fee and commission income (2) | 700,738 | 708,932 | -1.2% | 661,160 | 672,086 | -1.6% |
| Dividend income (3) | 4,155 | 2,878 | 44.4% | 19,872 | 5,004 | 297.1% |
| Net trading result and FX currency revaluation(4) | 353,006 | 315,465 | 11.9% | 346,465 | 310,246 | 11.7% |
| Result from financial assets and liabilities designated at fair value through profit or loss (5) | 1,689 | (1,148) | -247.1% | 1,689 | (1,148) | -247.1% |
| Net result from equity method investments (6) | 807 | 1,795 | -55.0% | - | - | - |
| Rental income from investment properties and other operating lease (7) | 63,289 | 53,549 | 18.2% | 9,840 | 1,014 | 870.4% |
| Personnel expenses (8) | (741,664) | (729,874) | 1.6% | (661,913) | (657,036) | 0.7% |
| Other administrative expenses (9) | (635,573) | (671,594) | -5.4% | (652,791) | (804,923) | -18.9% |
| Depreciation and amortization (10) | (166,983) | (169,029) | -1.2% | (117,269) | (105,780) | 10.9% |
| Operating Income (1+2+3+4+5+6+7) | 2,887,881 | 2,868,166 | 0.7% | 2,717,753 | 2,713,665 | 0.2% |
| Operating Expenses (8+9+10) | (1,544,220) | (1,570,497) | -1.7% | (1,431,973) | (1,567,739) | -8.7% |
| Operating Result | 1,343,661 | 1,297,669 | 3.5% | 1,285,780 | 1,145,926 | 12.2% |
| Gains/(losses) on financial assets and liabilities not measured at fair value through profit or loss, net | 151 | 111,747 | -99.9% | 151 | 111,754 | -99.9% |
| Net impairment (loss) / reversal on financial assets not measured at fair value through profit or loss | (32,418) | 279,990 | -111.6% | (22,699) | 217,288 | -110.4% |
| Other operating result | (406,259) | (518,915) | -21.7% | (456,210) | (468,927) | -2.7% |
| Pre-tax profit from continuing operations | 905,135 | 1,170,491 | -22.7% | 807,022 | 1,006,041 | -19.8% |
| Taxes on income | (237,008) | (130,428) | 81.7% | (236,712) | (119,955) | 97.3% |
| Post-tax profit from continuing operations | 668,127 | 1,040,063 | -36% | 570,310 | 886,086 | -36% |
| Profit from discontinued operations net of tax | - | - | - | - | - | - |
| NET PROFIT OF THE YEAR | 668,127 | 1,040,063 | -36% | 570,310 | 886,086 | -36% |
| Attributable to non-controlling interests | 6 | (1,783) | -100.3% | - | - | - |
| Attributable to owners of the parent | 668,121 | 1,041,846 | -35.9% | - | - | - |

The Group income statement for 2016 was not affected by the merger process with the subsidiaries.

Interest income declined by 5.6% at Group level and by 6.6% at Bank level, compared with December 31, 2016.

| in RON thousands | Group | | | Bank | | |
|-------------------------------------|------------------|------------------|-----------------|------------------|------------------|-----------------|
| | 2017 | 2016 | 2017/ 2016 % | 2017 | 2016 | 2017/ 2016 % |
| Interest Income | | | | | | |
| Loans and advances to customers | 1,476,508 | 1,553,704 | -5.0% | 1,438,218 | 1,554,336 | -7.5% |
| Held-to-maturity investments | 440,122 | 411,219 | 7.0% | 440,122 | 411,219 | 7.0% |
| Available-for-sale financial assets | 207,263 | 237,938 | -12.9% | 137,506 | 149,370 | -7.9% |
| Finance lease receivables | 52,516 | 51,272 | 2.4% | - | - | |
| Derivatives held for trading | 35,016 | 48,986 | -28.5% | 35,016 | 48,986 | -28.5% |
| Due from other banks | 2,881 | 11,748 | -75.5% | 7,242 | 11,748 | -38.4% |
| Reverse repurchase receivables | 10,522 | 2,917 | 260.7% | 10,522 | 2,917 | 260.7% |
| Cash and cash equivalents | 5,857 | 7,884 | -25.7% | 4,582 | 5,945 | -22.9% |
| Other | 5,819 | 42,532 | -86.3% | 5,555 | 42,322 | -86.9% |
| Total interest income | 2,236,504 | 2,368,200 | -5.6% | 2,078,763 | 2,226,843 | -6.6% |

Interest expenses declined by 18.8% at Group level and by 20.1% at Bank level compared with December 31, 2016.

| in RON thousands | Group | | | Bank | | |
|--|------------------|------------------|----------------|------------------|------------------|----------------|
| | 2017 | 2016 | 2017/ 2016% | 2017 | 2016 | 2017/ 2016% |
| Interest expenses | | | | | | |
| Term deposits of individuals | (124,901) | (184,239) | -32.2% | (60,207) | (111,442) | -46.0% |
| Term placements of other banks | (110,835) | (167,618) | -33.9% | (101,238) | (157,356) | -35.7% |
| Subordinated loans | (101,365) | (97,772) | 3.7% | (101,365) | (97,772) | 3.7% |
| Term deposits of legal entities | (49,028) | (30,346) | 61.6% | (51,070) | (32,295) | 58.1% |
| Debt securities in issue [Promissory notes issued] | (36,457) | (42,422) | -14.1% | (36,457) | (42,422) | -14.1% |
| Other borrowed funds | (17,220) | (25,181) | -31.6% | (17,220) | (25,181) | -31.6% |
| Derivatives held for trading | (16,150) | (23,500) | -31.3% | (16,150) | (23,500) | -31.3% |
| Repurchase transactions | (7,538) | (2,181) | 245.6% | (7,538) | (2,181) | 245.6% |
| Overnight placements of other banks | (1,439) | (900) | 59.9% | (1,439) | (900) | 59.9% |
| Other | (7,374) | (7,346) | 0.4% | (7,352) | (7,331) | 0.3% |
| Total interest expense | (472,307) | (581,505) | -18.8% | (400,036) | (500,380) | -20.1% |

Net commission income decreased by 1.2% at Group level and decreased by 1.6% at Bank level, compared with December 31, 2016.

| in RON thousands | Group | | | Bank | | |
|--|----------------|----------------|----------------|----------------|----------------|----------------|
| | 2017 | 2016 | 2017/ 2016% | 2017 | 2016 | 2017/ 2016% |
| Securities | 4,159 | 4,857 | -14.4% | 4,159 | 4,857 | -14.4% |
| Clearing and settlement | (12,531) | (19,512) | -35.8% | (12,531) | (19,512) | -35.8% |
| Asset management | 33,906 | 26,993 | 25.6% | - | - | |
| Custody | 11,737 | 11,918 | -1.5% | 12,951 | 13,173 | -1.7% |
| Payment services | 312,852 | 342,627 | -8.7% | 311,617 | 341,767 | -8.8% |
| Customer resources distributed but not managed | 130,637 | 123,107 | 6.1% | 130,293 | 122,684 | 6.2% |
| Lending business | 95,260 | 80,476 | 18.4% | 103,520 | 86,739 | 19.3% |
| Other | 124,718 | 138,466 | -9.9% | 111,151 | 122,378 | -9.2% |
| Net Commission income | 700,738 | 708,932 | -1.2% | 661,160 | 672,086 | -1.6% |

7 Equity accounts and profit distribution

7.1 Equity accounts as at 31 December 2017

The Bank's equity as at December 31, 2017, amounts to RON 7,444,657 thousands and is detailed below:

| in RON thousands | Bank |
|--|------------------|
| Share capital ^[1] | 1,625,342 |
| Adjustment of the capital - Hyperinflation | 1,327,224 |
| Merger premium | 395,483 |
| Other reserves | 1,130,670 |
| <i>Legal statutory reserves</i> | 569,355 |
| <i>General reserve regarding credit risk set up from profit before tax</i> | 162,935 |
| <i>Reserve on general banking risks</i> | 267,673 |
| <i>Other reserves</i> | 130,707 |
| Revaluation reserve | 311,639 |
| Retained earnings ^[2] | 2,083,989 |
| Net profit for the period | 570,310 |
| TOTAL AMOUNT OF THE BANK'S EQUITY | 7,444,657 |

^[1] The share capital represents the subscribed and paid-up share capital at nominal value, consisting of 16,253,416,254 shares with each nominal value of RON 0.1 / share;

^[2] The retained earnings include the loss not covered yet since 2014

7.2 Profit distribution

The net profit of the Bank for the financial year ended 31 December 2017, amounting to RON 570,309,907, will be distributed according to the law.

According to the Accounting Law no 82/1991, republished, with subsequent changes and supplements, the reported accounting loss may be covered from the current year profit, retained earnings, reserves, share premiums and share capital, following the decision of the general meeting of shareholders or associates. According to the General Meeting of Shareholders no 2/24.04.2017, the reported accounting loss from 2014 and uncovered is going to be covered from the profit of the following years.

The Supervisory Board proposes to the General Meeting of Shareholders the distribution of 2017 net profit as follows:

| Element | Amount - RON |
|--|--------------------|
| 2014 Loss to be covered ^[1] | 121,034,152 |
| Legal reserves | - |
| Dividend distribution ^[2] | 228,123,964 |
| Result reported ^[3] | 221,151,794 |
| Total | 570,309,910 |

^[1] Short history regarding 2014 loss to be covered

| Item | Year | Amount - RON |
|---|------|-----------------|
| Loss | 2014 | (2,629,568,499) |
| Profit + Changes in the accounting policies | 2014 | 658,903,238 |
| Profit | 2015 | 963,426,958 |
| Revaluation reserve* | 2015 | 118,315 |
| Profit | 2016 | 886,085,836 |
| Profit | 2017 | 121,034,152 |

*In 2015, the uncovered loss in 2014 was reduced by using the revaluation reserve for a property received free of charge and no longer used by the Bank in a total value of RON 118,315.

^[2] The amount of RON 228,123,964 represents the gross amount of the dividends.

^[3] The retained earnings totaling RON 221,151,794 will be used in accordance with the Bank's business strategy.

7.3 Own funds elements

According to Regulation no. 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012, in accordance with the provisions of Chapter II "Basic Tier 1 Own Funds" Section 1, Article 26 paragraph 1, the elements of own funds consist, among other things, of: retained earnings, other items of accumulated comprehensive income, other reserves and funds for general banking risks.

These items are considered Own Funds Basic Tire 1 only if they are available to the bank for unrestricted and immediate use in order to cover risks or losses as soon as they appear.

8 Subsidiaries business performance overview and predictions

8.1 BCR Chisinau SA

In 2017, BCR Chisinau increased its net loan portfolio with 52% compared to 2016, up to MDL 605 million. This increase was based on attracting International and local Corporate and SME clients as well as their employees through the offer of innovative products such as export factoring, digital banking and quality services adapted to their needs. At the same time and for the first time since its founding, the bank extended its retail network to all regions of the Moldovan territory with the opening of a branch in Cahul, together with a new unit in Chisinau.

The share of Non-performing loans decreased significantly in 2017 to 19% from 32% in 2016 (the NPLs are concentrated in a limited number of loans and mostly provisioned). As a core part of its risk management strategy, BCR Chisinau maintained a prudential approach by increasing its provisions, calculated in accordance with International Financial Reporting Standards (IFRS) and the requirements applied in BCR/ Erste Group. In this context, the coverage on non-performing loans has increased from 61.9% in 2016 to 68.2% in 2017. However, BCR Chisinau registered a Net Profit in 2017 of MDL 17.6 million driven by the increase in its operating result.

For 2018 the Bank's strategy is based on the following main pillars: growth and increase of its revenue from operational activity, automation (launching of a new Mobile Banking solution for individuals and corporate clients and the improvement of the current internet banking solution) and compliance with the legislative framework derived from the implementation of Basel III in Moldova.

8.2 BCR Leasing IFN SA

In 2017, BCR Leasing focused on consolidating its activity, in particular strengthening its financial position reflected by the increase in profitability up to RON 32 million, by 18% more than in the previous year. This is one of the company's main achievements, allowing it to continue investing in both new and existing projects, focusing specifically on IT infrastructure, mobility and partnerships.

In 2017 BCR Leasing total assets increased by 11% compared to the previous year, reaching RON 1.7 billion based on the increase in sales volumes, while the share of non-performing exposures improved significantly from 9.5% in 2016 to 3.9% in 2017 reflecting the successful efforts to improve the quality of the leasing portfolio, as well as the higher quality of new sales.

The operating result increased by 9% compared to the previous year (RON 55 million in 2017 vs. RON 50 million in 2016), mainly due to the increase in net interest income by 16% (RON 62 million in 2017 vs. RON 53 million in 2016). In 2017, Cost/Income ratio continued at the same level of 33% compared to 2016, reflecting the company's excellent operational performance.

The sales volume continued to be stimulated by both sales channels, the bank and the dealerships / importers' partnerships, contributing 60% and 40%, respectively, to the new sales.

In 2018 BCR Leasing will continue to develop its business and increase business volumes, while maintaining the share of non-performing exposures at the same level compared to 2017.

8.3 BCR Pensii, Societate de Administrare a Fondurilor de Pensii Private SA

BCR Pensii SAFPP is a company that performs its activity on the private pensions market in Romania, including mandatory (Pillar II) and voluntary private pensions (Pillar III).

As at the end of 2017 the company ranked 6th in the top of mandatory private pension funds management companies acting on the Romanian market, in terms of total number of subscribers, with a market share of 8.6% and 604,222 subscribers.

In terms of total number of subscribers for voluntary pensions funds, BCR Pensii ranked 2nd, with a market share of 29.22% corresponding to a number of 130,347 participants.

In 2017, BCR Pensii had the second position for voluntary pensions new sales, with 18% market share of new participants.

The strategy of the subsidiary is to continue on the same trend as in the past years, to promote its two funds towards more and more eligible prospects and of increasing the Pillar 3 sales quality in order to improve the collection rate. Furthermore, in 2018 the company continues the Pillar 2 active sales strategy.

8.4 BCR Banca pentru Locuinte SA

The activity of BCR Banca pentru Locuinte SA consists in the sale and management of savings and loan products for housing purposes (type Bauspar).

The total portfolio of BCR Banca pentru Locuinte SA is 251,734 net contracts for customers who have realized savings of more than RON 2.63 billion. The estimated market share of deposits volumes (housing banks) at the end of 2017 is approx. 80%.

Lending activity, for approved loans, has grown by 11.2% at the end of 2017 (RON 45.72 million) compared to the end of 2016 (RON 41.12 million) and the estimated market share as of 31-December-2017, for outstanding loans granted by BCR Banca pentru Locuinte SA, is 55%.

The strategic priority of the company in 2018 is increasing the lending business by 75% versus 2017. The increase of lending activity in 2017 was due to the start of projects related to the improvement of the efficiency of lending workflows and due to the cross-sell strategy with BCR.

BpL's strategic priority for 2018 is to switch from competing the lowest interest rate on the market to offering "money can't buy" all inclusive services through "one stop shop" for improving housing comfort.

8.5 Suport Colect SRL

Suport Colect is owned by BCR (99,999959%) and BCR Leasing IFN S.A. (0,000041%).

In 2017, the Company continued performing its core business activity represented by the collection of the loans receivables portfolio owned, including cash collections from receivables, or through properties obtained as debt to asset swaps, either amiable or in enforcement, or sale of receivables.

However in 2017 the Company recorded a loss amount of RON 8,235 thousands (2016 profit: RON 31,603 thousands) mainly due to higher provisions for risks and operating expenses that did not offset above the positive effect of the administration and realization through collection or sale of the receivables portfolio and of the owned properties.

In 2018 the action plans are focused on the following main aspects: sale of the properties owned, continue the efforts to realize recoveries on the loans receivables portfolio and close the related processes (having the enforcement process closed, collateral sold, close litigations).

8.6 CIT One SRL

Set-up in August 2009, as a spin off from BCR, CIT One had gradually matured and is now the 2nd largest cash transport and processing company in Romania by turnover, business portfolio, staff, fleet and processing capacity.

During 2017 company was focused on taking over of new non- BCR group clients.

The financial result for the year ending 2017 is a loss in amount of RON 2.7 million, driven by higher expenses related to client acquisition, investments to renew the old fleet.

For 2018, CIT One mainly planned to continue the increase of non-BCR group clients portfolio, to complete the implementation of cashier arming project in all processing centres, to continue the renewal of armoured cars and processing equipment fleet.

The Management Board approved in April 2017 the launching of the sale process of BCR's investment in shares in CIT One SRL and in September 2017 approved the strategy for the binding offer phase of the sale project.

8.7 BCR Fleet Management SRL

BCR Fleet Management started its operations in 2012, providing operational leasing and fleet management services for corporate clients with large fleets. BCR Fleet Management developed partnerships with the most important passenger cars and commercial vehicles dealers and importers in Romania, being able to provide its services for almost any passenger car or commercial vehicles.

During the last 5 years, BCR Fleet Management has become an important player in the operational leasing market with a total fleet over 4,000 vehicles and total asset size of RON 225 million at the end of 2017. BCR Fleet Management's clients are mostly multinational corporations or large Romanian companies, as well as public sector organizations.

For 2018 BCR Fleet Management commercial strategy will be focused on developing further the corporate clients segment, as well as diversifying the portfolio in the retail. Apart for that, BCR Fleet Management will aim to improve operational efficiency by adjusting its processes and workflows to its actual size, developing its infrastructure.

8.8 BCR Payments Services SRL

BCR Payments Services is a subsidiary of the BCR Group, founded in 2011, following the outsourcing of payment processing, which were made until then integrated into the same unit BCR Sibiu Processing Centre of the Banking Operations Department. The company is responsible for centralized processing of payment transactions in local and foreign currency, debt instruments in local currency and foreign currency, accounts opening and maintenance.

BCR Payments Services serves all local units of BCR, Banking Operations Division, and other BCR divisions, on the base of the outsourcing contract signed between the two parties.

During 2017, 4.2 million transactions were processed and the company's profit at 31 December 2017 amounted RON 438 thousands.

In 2018 BCR Payments Services SRL will focus on extending of range of services provided as well as further improvement internal efficiency through investments in personnel.

9 The Bank's and group risk profile

9.1 Overview

The overall focus of risk and capital management throughout 2017 was on maintaining the BCR Group risk profile in line with the BCR Risk Strategy, increasing the capital base and supporting the strategic management initiatives with a focus on balance sheet optimization.

BCR Group uses a risk management and control system that is forward-looking and tailored to its business and risk profile. This system is based on a clear risk strategy that is consistent with the business strategy and focused on early identification and management of risks and trends.

The *overall risk profile* for BCR Group, as well as the *individual risk profiles* are implemented through the BCR Group Risk Strategy and are subject to an annual comprehensive review process. A quarterly assessment of the risk profiles is considered to check if there are changes in respect of the risks materiality or if new risks occurred in the Bank activity.

Given BCR Group business strategy, the key risks for BCR Group are credit risk, market risk (including interest rate risk in the banking book), liquidity and funding risk and operational risk. All material risks are covered by BCR Group's control and risk management framework. This entails a set of different tools and governance to ensure adequate oversight of the overall risk profile and sound execution of the risk strategy, including appropriate monitoring and escalation of issues that could materially impact the risk profile of BCR Group.

Based on the BCR Group Risk Strategy and BCR Group overall and individual risk profiles, BCR Group subsidiaries, including BCR, set up their local risk profile. Also, BCR Group's capital management framework serves to ensure that the group and its subsidiaries are capitalized in line with the risk profile, regulatory requirements and economic capital requirements.

As part of its risk strategy, BCR Group analyses its actual risk profile and determines a target risk profile based on its strategic goals. The target risk profile is a result of the risk assessment process in combination with the boundaries set by the business strategy and the risk appetite framework.

In terms of governance, full oversight of the risk profile and a sound execution of the risk strategy is ensured including appropriate monitoring and escalation of issues that could materially impact the risk profile of the Group.

9.2 Proportionality Principles

The proportionality principle is a crucial and integral part of BCR Group's overall risk framework and strategy. The proportionality principle is applied for the core components of BCR Group ICAAP framework (Risk Materiality Assessment / Risk taxonomy, Risk-bearing Capacity Calculation, Risk Appetite & Risk Profile, Stress testing, Risk Concentration Analysis).

The proportionality concept, the classification categories and criteria as well as process requirements for implementation, application and roll-out in the context of key BCR Group ICAAP areas are described in BCR Group ICAAP Policy as a core element governing the application of the Group ICAAP framework.

BCR Group level risk management principles, concepts and processes are generally designed, developed and implemented to address over-arching organizational needs across both group and local entities/subsidiaries reflecting a high degree of granularity and detail.

However, subsequent implementation and application at BCR Group subsidiaries requires an approach that takes differences in business structures, size, complexity and relevance into account. This will ensure a meaningful, suitable and adequate application across BCR Group in line with local needs and capabilities while still fulfilling overall BCR Group level requirements and standards.

The evaluation of proportionality criteria is reviewed on an annual basis and included in the Risk Strategy. In addition, a re-assessment might be carried out outside the annual review cycle if changed business parameters indicate a need for a respective re-classification.

9.3 Risk Profile

Starting from the volume and nature of BCR activity as part of BCR Group, the risk profile of BCR Group is driven by the Bank risk profile. Thus, the Risk Profile for BCR Group follows in general the same directions as the Bank, both with regard to overall risk profile and individual risks profiles based on the following considerations:

- the volume and nature of BCR activity as part of BCR Group;
- the categorization of BCR as a full subsidiary based on the Proportionality Principles.

9.4 Individual risk profiles for the key risk types

9.4.1 Credit Risk

Credit risk is defined as the current or prospective risk to earnings and capital arising from a borrower's failure to meet the terms of any contract with the credit institution or its failure to perform as agreed.

In respect of the **credit risk profile**, in order to lower the risk profile for this risk in 2017, BCR has targeted the following strategic directions:

- Any relaxing of the lending standards which can affect the Credit Risk profile of the bank have to be benchmarked against the targeted risk profile and operative limits, supporting metrics and in the end against the Risk Appetite Statement;
- An integrated risk management framework where risk appetite is cascaded down to the highest granular level in terms of concentration policy, lending acceptance criteria and business strategy;
- BCR Group continued to refine, update, monitor and redevelop its statistically validated scorings, rating models, risk parameters and tools;
- BCR Group continued to manage the industry concentrations and to align the portfolio composition with the business strategy;
- Perform periodical stress tests/sensitivity analysis related to the impact of credit risk on the Bank and Group.

More details regarding credit risk may be found in Notes 39.5 of the Financial Statements.

9.4.2 Concentration risk

The BCR concentration risk framework outlines the standards needed to identify, measure, monitor, and mitigate concentration risks, whose implementation is essential to ensure the long-term viability of any financial institution, especially in the case of stressed economic conditions.

In respect of concentration risk management, the Bank has implemented a wide framework of limits which are specific, measurable, frequency-based, reportable, and based on forward looking assumptions in order to facilitate effective monitoring and reporting.

The limit framework includes material risk concentrations at the bank-wide, business line and legal entity levels (e.g. counterparty, industry, country/region, product) aiming to ensure that the Bank operates within its defined Risk Appetite and they are effective in controlling Risk Tolerance. Dimensions included in the limit framework comprise: industry limits, geographic regions, corporate unsecured loans, corporate and Retail product limits, FX retail limits, as well as concentration risk limits on individual counterparties depending on the ratings (maximum / operational lending limits), market and liquidity risk limits and operational key risk indicators.

9.4.3 Residual risk

This is the risk that the recognized credit risk mitigation techniques (e.g. collateral) employed by the Bank will be less effective than expected.

Collateral and credit enhancement are evaluated pursuant to internally defined rules. Depending on rating grade, purpose and tenor, risk bearing products are protected against losses by stipulating adequate collateral that is fully and indisputably legally enforceable and sufficiently documented for the Bank. Nevertheless, collateral and credit enhancement can never substitute repayment capability.

9.4.4 FX induced credit risk

FX induced credit risk is a risk associated with foreign currency lending to un-hedged borrowers, which arises due to exchange rate fluctuations of the respective foreign currency.

Foreign currency loans are defined as loans that are at least partially receivable in other currencies than the legal tender of the country in which the borrower is domiciled. Un-hedged borrowers means borrowers without a natural or financial hedge which are exposed to a currency mismatch between the loan currency and the hedge currency. Natural hedges include in particular cases where borrowers receive income in foreign currency (e.g. remittances/export receipts), while financial hedges normally presume there is a contract with a financial institution.

The Bank has in place limits for new retail FX loans and total FX retail limits in order to decrease the overall retail FX exposures and mitigate FX Induced Credit Risk. FX induced Credit Risk is also estimated through capital requirement under Pillar 2, and monitored by the bank on a quarterly basis.

9.4.5 Market Risk

Market risk is the risk to incur losses corresponding to on-balance and off-balance positions due to adverse market price movements (such as, for example, stock prices, interest rates, commodity prices and foreign exchange rates).

Key principles of BCR Group's market risk management are based on the following pillars:

- Identification of market risks – identification of market risks inherent in the investment operations and in new products, and ensuring adequate procedures and controls before these are implemented or undertaken;
- Position keeping and Market Data Maintenance – ensuring proper data representation of BB and TB positions and also sourcing of appropriate market data for financial instruments and risk factors including data quality checks and cleansing;
- Pricing and valuation – maintenance of appropriate instrument pricing framework and valuation routines for the calculation of valuation adjustments;
- Risk measurement – calculation of risk exposure using sensitivities, value-at-risk, and stress testing;
- Validation - On one hand this concerns Value at Risk (“VaR”) back-testing while on the other hand parameters and models used must be validated on a regular basis;
- Market Conformity of Trading Activity - assuring that trading activities are performed at market conforming prices and rates;
- Market Risk Limits - development of a comprehensive limit system, limit allocation and violation reporting;
- Market Risk Monitoring and Reporting – timely and accurate reporting of all relevant information.

More details regarding market risk may be found in Notes 39.6 of the Financial Statements.

9.4.6 Liquidity & Funding Risk

Liquidity Risk is the risk that the bank is unable to meet its payment obligations when they come due or only being able to meet these obligations at excessive cost.

BCR Group distinguishes between market liquidity risk (which is the risk that the group entities cannot offset or close a position at the market price because of inadequate market depth or market disruption) and funding liquidity risk (which is the risk that the banks in the group will not be able to meet efficiently both expected and unexpected current and future cash flow and collateral needs without affecting either daily operations or the financial condition of the group members).

BCR Group has an appropriate reporting framework for liquidity and funding risk management which includes the scope, possible manifestations and frequency of these risks, and which also designates the entity responsible for preparing the specific reports.

In 2017, the Bank has implemented and started delivering to the regulator the Additional Liquidity Monitoring Metrics (ALMM) reports, thus benefiting from a more comprehensive analysis of its financing sources. The Bank has an adequate set of limits on the values of various liquidity risk indicators, which enable it to closely monitor and control liquidity risk. These limits are also cascaded

down to the major entities of BCR Group (i.e. BCR BpL and BCR Chisinau), which have also implemented the limits and set their own values, based on prior approval from BCR Bank.

In 2017, BCR Bank and BCR BpL have implemented and started delivering to the regulator the Additional Liquidity Monitoring Metrics (ALMM) reports, thus benefiting from a more comprehensive analysis of their financing sources.

The Bank is also using the Survival Period Analysis (SPA) as a key tool for measuring liquidity risk; its aim is to assess whether sufficient liquidity can be obtained in order to operate at a level where the Bank can survive a liquidity stress scenario for at least 1 month. The analysis is performed per each significant currency (i.e. RON and EUR), and per total currencies.

Another important tool for BCR's funding risk management process is the CFP (Contingency Funding Plan). It provides a useful framework in the event the Bank is unable to fund some or all of its activities in a timely manner, and at a reasonable cost.

With respect to cash flow risks, BCR is actively managing the intraday liquidity positions, such that it can be able to fulfil at any time the requirements related to payments and settlements, in both normal and crisis conditions.

Thus, BCR has the capacity to:

- Measure daily the gross inflows and outflows, to predict as accurately as possible the time of the day when these flows will occur, and to predict any financing deficits that may occur during a day;
- Monitor the intraday liquidity positions as compared to the expected activities and available resources (balances, capacity to cover outstanding loans, available collaterals);
- Obtain the necessary financing for meeting the intraday liquidity objectives;
- Manage the eligible collaterals for obtaining the intraday financing;
- Manage the liquidity outflows according to BCR intraday objectives;
- Be prepared to face unexpected changes in intraday liquidity flows.

The mechanisms used by BCR in order to calculate the liquidity position are based on the following:

- prediction of cash-flows impacting the current account during the day – as accurately as possible – including prediction of the timing of these flows throughout the day;
- estimation of the possible cash-flow shortages throughout the day;
- ability to monitor the intraday liquidity position and the expected liquidity requirements throughout the day.

Potential measures used by BCR for managing liquidity in order to ensure the intraday availability of funds are:

- the possibility to access intraday liquidity from NBR in case of necessity to cover unexpected amounts during a day;
- making payments based on the available resources (and the liquidity position expected during the day).

More details regarding liquidity risk may be found in Notes 39.7 of the Financial Statements.

9.4.7 Operational Risk

BCR Group's operational risk is governed by an operational risk management policy, which defines:

- the operational risk management structure, hierarchy and governance model ("three lines of defence model");
- the risk appetite setting the limits of residual operational risk tolerance (OpRisk scaling matrix);
- common standards for managing and documenting operational risk within BCR Group;
- the framework that ensure OpRisk (OpRisk concentrations) are adequately identified, assessed, documented and managed.

The quantitative measurement methods are based on internal loss experience data, which are collected across Erste Group using a standard methodology and entered into a central data pool. In addition to the quantitative methods, qualitative methods are also used to determine operational risk, such as risk assessment surveys. BCR Group also reviews certain key indicators periodically to ensure early detection of changes in risk potential that may lead to losses.

To lower the operational risk profile, Bank has undertaken the following measures:

- Permanent development and improvement of control environment;
- Improvement of operational loss data collection;
- Performing periodical stress tests/ sensitivity analysis related to the impact of operational risk on the Bank and Group.

The Bank and its subsidiaries have implemented a wide range of specific ratios for managing operational risk. The monitoring and regular reporting of operational risk indicators (KRI) is enabling the Bank to detect any change in its exposure to operational risk in due time. Also, the Bank is monitoring the evolution of recorded events, as well as through implementing/ solving corrective measures.

More details regarding operational risk may be found in Notes 39.8 of the Financial Statements.

9.4.8 Reputational Risk

Reputational risk is defined as the current or prospective risk to earnings and capital arising from adverse perception of the image of the credit institution on the part of customers, counterparties, shareholders, investors or supervisory authorities.

Reputational risk issues arise from transactions with clients or through different business activities. However, due to its nature, these usually materialize through other risk types. The primary responsibility for the identification, escalation and resolution of reputational risk issues resides with business and the relevant risk type owner supports their resolution.

Reputational risk registered improvements in 2017 based on a series of projects such as launching of the financial education program, launching of public diplomacy initiative, consolidation of corporate culture, risk return decision tool, new product approval process.

10 Risk management

10.1 ICAAP framework

BCR Group has continued to strengthen its ICAAP comprehensive framework. This includes as its fundamental pillar the ICAAP (Internal Capital Adequacy Assessment Process) required under Pillar 2 of the Basel framework.

The ICAAP framework is a holistic steering and management model designed to support BCR Group in managing its risk portfolios and its risk bearing capacity by ensuring that the bank has, at all times, an adequate coverage potential which ensures the necessary capital adequacy to sustain its business and risk strategy.

A key component of ICAAP is the assessment of the group's capital adequacy using economic capital measures. In the ICAAP, the Group identifies and measures its risks and ensures that it has sufficient capital in relation to its risk profile. The process also ensures that adequate risk management systems are used and further developed. The relevant components of the framework refer to:

10.1.1 Risk profile

The risk profile is represented by the aggregated actual and potential risk exposures of the Bank.

The Group Risk Profile is developed within the Risk Appetite and by evaluating the material risks to which the bank is exposed. BCR Group ICAAP Report monitors the development of the BCR Group Risk Profile compared with the Risk Appetite and Risk Strategy and it is presented to the Management Board and Supervisory Board on a quarterly basis.

10.1.2 Risk appetite (RAS)

BCR Group defines its Risk Appetite through the annual strategic planning process to ensure appropriate alignment of risk, capital and performance targets. RAS represents a strategic statement expressing the maximum level of risks BCR Group is prepared to accept in order to achieve its business objectives. It consists of a set of core metrics providing quantitative direction for risk

steering, as well as qualitative statements in the form of key risk principles that form part of the strategic guidelines for managing risks.

10.1.3 Risk bearing capacity (RCC)

The Risk Bearing Capacity calculation defines the capital adequacy required by ICAAP. Within the RCC the Group's risks measured from an internal economic perspective are summed up to provide the basis to determine BCR Group's Economic Capital. The Economic Capital is then compared to internal capital, as measured by the coverage potential.

The integral forecast, risk appetite limits and the traffic light system support management in its discussions and decision process. The traffic light system embedded in BCR Group's RCC helps to alert the management in case there is need to decide on, plan and execute actions either to replenish the capital base or to take measures for reducing risk.

10.1.4 Stress testing

Stress testing is a vital component of the Risk Management framework within BCR Group and is incorporated into the strategic planning process for business activities, capital and liquidity assessment. The assessment of the ability of the Bank to sustain losses in severe but plausible macroeconomic scenarios provides information on the adequacy of the overall business model, and supports the planning of emergency and mitigation measures.

Stress testing results and recommendations are incorporated into the process for defining the RAS, subsequent financial projections and budgeting processes, the assessment of risk concentrations, as well as in the calculation of the risk-bearing capacity and the determination of the economic capital adequacy limit.

10.1.5 Risk Planning and Forecasting

BCR Group has implemented a sound risk planning and forecasting process, which includes both a forward and backward looking component, focusing on both portfolio and economic environment changes.

Planning of risk relevant key numbers is also part of BCR Group ICAAP framework and it assures the adequate reflection of risks within the steering and management process of the Group activity.

10.1.6 Recovery Plan

The Bank Recovery Plan Governance represents a framework for the drawing up and the implementation of the recovery plan as a main pillar of strengthening the financial resilience of BCR and restoring its financial position following a significant deterioration. It identifies a set of recovery measures which could be taken in order to restore BCR's financial strength and viability when it comes under severe stress.

The Recovery Plan also ensures that proper remediation measures are applied if the Bank starts moving outside of its approved risk appetite in order to recalibrate its risk profile and ensure that can recover on a sustainable basis.

10.2 Monitoring of the BCR Group Risk Profile

Oversight of the overall risk profile at the Group level consists of both strategic and operational oversight.

10.2.1 Strategic oversight

A major part of the strategic oversight plan is determining the Bank's risk appetite. The Risk Appetite Statement (RAS) sets the boundary for a maximum risk the Group is willing to accept in order to pursue its business objectives; this includes a set of core steering metrics with trigger levels providing strategic guidelines for risk management and planning.

The Risk strategy sets strategic risk targets based on the targeted risk profile of the Group and the RAS and provides a balanced risk-return view considering strategic focus & business plans.

Both are regularly monitored and reported in the BCR ICAAP Report including a traffic light overview together with respective measures to address identified deviations from strategic plans or objectives.

10.2.2 Operational oversight

Operational oversight involves the identification, assessment, and prioritization of risks and the application of resources to minimize, control and mitigate the impact of unfortunate events on business. Risk management by risk type ensures that the risk specific profile remains in line with the risk strategy and operative limits support the achievement of strategic targets. The development of the specific risk profile (i.e. retail credit, corporate credit, operational risk, etc.) is reported through dedicated risk reports in a more granular way and supports risk decision making of the dedicated risk functions to ensure the risk profile remains within risk strategy (i.e. retail risk report). These reports also include specific monitoring metrics that provide an early warning signal for adverse developments of, e.g., portfolio quality (client, segment, countries and industries) or risk drivers. In instances where certain risk portfolios or events are identified as potentially in distress, these are closely monitored by the dedicated risk functions to manage the risk impact and to develop effective strategies to minimize potential losses. This process facilitates early risk detection and reaction.

11 Statement regarding corporate governance

11.1 Corporate governance framework

Banca Comerciala Romana SA (BCR), bank managed in a two-tier system, carries out its activity based on a corporate governance framework which is in line with the legal and regulatory requirements of the Romanian legislative framework, the EGB Group guidelines, as well as the best international practices in the industry.

The policy regarding corporate governance at BCR level, in compliance with the provisions of the regulatory framework issued by the National Bank of Romania (NBR), is based on the principles stating that the overall management structure and especially the supervisory function have the responsibility to establish, assess and periodically and systemically review: how the bank's activity is organised, the collective and individual competencies and responsibilities, how the implementation and application of the entire set of regulations is monitored, flows and control keys from the perspective of the undertaken mission and vision, targets' achievement as per the business plans, effective risk management.

The policy and the corporate governance principles on which the policy is based are applicable at the BCR Group level, and BCR management body is assuring that at the group level for BCR subsidiaries there is assured a proper corporate governance framework in order the meet all applicable governance requirements.

Within this framework, the undertaken principles are based on the fact that BCR is part of Erste Group – one of the largest financial services suppliers from Central and Eastern Europe, and are aligned with the corporate governance principles applicable at Group level.

For BCR, as leader of the Romanian banking system and as member of Erste Group, corporate governance represents a key element of its business success. BCR meets the expectations of its stakeholders through an integrated system of values, principles, and rules which secures its responsible, transparent and specific operation.

From BCR's perspective, Corporate Governance covers all rules, systems and processes implemented with a view to establish the relation between shareholders, management, clients, employees, suppliers and other parties involved in setting the objectives and the manner to achieve them, for increasing economic performance and, implicitly, the Bank's value. It also highlights the efficiency of the management systems, namely the role of the Supervisory Board and of the Management Board, the responsibilities and remuneration of these structures' members, the creditability of the financial statements and the efficiency of control functions.

Details regarding BCR Corporate Governance Report may be found on the following link: <https://www.bcr.ro/en/about-us/corporate-governance>

11.2 General and Extraordinary Meeting of Shareholders

The General Meeting of Shareholders (GMS) is the bank's highest management and decisional body.

The Ordinary GMS deliberates and decides on:

- discussing, approving or changing the annual financial statements, after hearing the reports of the: Supervisory Board, Management Board and financial auditor, including the reports of Supervisory Board's committees, and setting up the dividends, reserves or other allotments;
- electing and revoking the Supervisory Board members;
- setting up an adequate remuneration for the Supervisory Board members for the current year;
- assessing the activity of Supervisory Board and Management Board's members and discharging them of duty for the previous financial year;
- approving the income and expense budget and, if applicable, the plan of activities for the next financial year;
- approving the pledge, lease or close down of the Bank's units;
- approving the initiation of the legal proceedings against the members of Supervisory Board and the financial auditor and nominating the person empowered to represent the Bank in such legal process;
- appointing and revoking the financial auditor and establishing the minimum duration of the contract concluded with them.

The Extraordinary GMS deliberates and decides on:

- increasing or reducing the share capital;
- reconstituting the share capital in order to meet the minimum capital requirements established by law;
- reshaping the Bank main business activity as set forth in Article 7 of the Charter;
- the merger of the Bank with any other company or the Bank splitting up process;
- the liquidation and dissolution of the Bank;
- issuance of bonds;
- conversion of shares from one class to another;
- re-organizing, consolidating or provision documents regarding to intangible assets, when the value of transactions exceeds 25 (twenty five) percent of the Bank own funds;
- contracts conclusion by the Management Board's members regarding the acquisition, selling, lease, exchange or pledge of the Bank assets if the value of such assets exceeds 50 (fifty) percent of the Bank's assets book value on the date of concluding such legal agreement;
- purchase by the Bank of its own shares, directly or indirectly, in accordance with the law;
- amending the Bank Charter;
- increasing the share capital related to the primary public offer of shares aiming to ensure the listing of the Bank shares on the Bucharest Stock Exchange.

All shareholders may attend the general meetings of shareholders, in person or by means of a representative. Shareholders can be represented at the General Meeting of Shareholders based on a special power of attorney lodged with the Bank by at least 2 (two) working days before the relevant meeting.

11.3 The Supervisory Board

The Supervisory Board shall supervise the activities of the Management Board and the management of the compliance risk as well as abidance by the laws, the Bank's Charter and the General Meeting of Shareholders decisions.

The Supervisory Board is made of 7 (seven) members appointed for a three-year period, with the possibility of being elected for subsequent three-year mandates.

The main responsibilities include:

- establishes, monitors and regularly assesses (at least yearly) the structure and efficacy of the governance framework of the Bank and its subsidiaries, including the policies related to it, reviewing (at least yearly) and considering various risks, both internal, as well as external that the Bank and its subsidiaries are exposed to;
- approves and regularly reviews, (at least annually) the general business strategy, the risk strategy and the general risk management policy at Bank's level and at the level of its subsidiaries;
- approves and periodically reviews the internal audit statute and the internal audit plan, as well as the financial audit scope and the frequency of audit engagements;
- approves and assesses (at least yearly) the policy regarding compliance risk and its implementation;
- approves the guidelines for staff policy and the organizational structure of the Bank down to the level of independent entities inclusively and any changes thereof.

The members of the Supervisory Board, during the year were:

- Manfred Wimmer – chairman
- Andreas Treichl – deputy-chairman
- Gernot Mittendorfer – member
- Brian O'Neill - member
- Tudor Ciurezu – member
- Hildegard Gacek – member
- Wilhelm Koch – member

The Supervisory Board may establish committees as necessary and appropriate, consisting of two or more of the members of the Supervisory Board. Such committees shall have the powers and authority established by the Supervisory Board, as provided in the respective committees' internal rules. The Supervisory Board committees are the following:

11.3.1 Remuneration Committee

The Remuneration Committee is a consultancy body which reviews, reports to, advises and assists the Supervisory Board in carrying out its powers and responsibilities with respect to the salary policy, and in particular advises and monitors the remuneration, bonuses and benefits of the members of the Management Board.

The Remuneration Committee is made of three members of the Supervisory Board. The responsibilities, the organization, the operation and the procedures of the Remuneration Committee are established by the Remuneration Committee Internal Rules.

11.3.2 Audit and Compliance Committee

The Audit and Compliance Committee is a consultancy body, which reviews, reports to, advises and assists the Supervisory Board in carrying out its tasks related to internal control, compliance and audit, as well as on the quality and performance of Bank's internal accountants and auditors, the reliability of the Bank's financial information, and the adequacy of the Bank's financial controls and policies.

The Audit and Compliance Committee is made of three members of the Supervisory Board.

Members of the Audit and Compliance Committee must have accounting and financial knowledge and at least one member of the Audit and Compliance Committee shall have accounting or financial management professional background. The responsibilities, organization, the operation and the procedures of the Audit and Compliance Committee are established by the Audit and Compliance Internal Rules.

11.3.3 Nomination Committee

The Nomination Committee is a consultancy body, which reviews, reports to, advises and assists the Supervisory Board in carrying out its tasks related to the nomination and assessment of suitability of

the members of the Supervisory Board, the Management Board and of the key function holders respectively as well as to the Bank's corporate governance framework.

The Nomination Committee is made of three members of the Supervisory Board. The responsibilities, the organization, the operation and the procedures of the Nomination Committee are established by the Nomination Committee Internal Rules.

11.3.4 Risk Management Committee

The Risk Management Committee is a consultancy body which reviews, reports to, advises and assists the Supervisory Board in carrying out tasks related to risk management and issues recommendations within its authority limits.

The Risk Management Committee is made of three members of the Supervisory Board and a replacement member. The responsibilities, organization, the operation and the procedures of the Risk Management Committee are established by the Risk Management Committee Internal Rules.

The Report regarding the activity conducted in 2017 by the BCR Supervisory Board committees is presented separately to the General Shareholders meeting together with the reports related to the Year End 2017 Financial Statements, included on the meeting's agenda and made available to the shareholders for analysis.

11.4 Management Board (MB)

The Management Board ensures the operational management of the Bank and the effective management of the compliance risk.

The Management Board members are authorized to manage the bank on a daily basis and they have authority and power to legally represent and bound the Bank, according to the Bank Charter.

The Management Board has five members appointed by the Supervisory Board, for mandates of maximum four-year period each, one of them being appointed as President of the Management Board. The remuneration of Management Board members is decided by the Supervisory Board.

The President and the other members of the Management Board have competences and assignments established by law and by the Management Board's Internal Rules. Main responsibilities:

- managing the implementation of Bank's financial targets, strategy and business plan;
- systematically and regularly approving and revising the strategies and policies regarding the risk management;
- approving the strategies and policies related to the internal capital and own equity (covering and proportional to the nature, extension and complexity of the activity conducted by the Bank);
- periodically monitoring and assessing the efficiency of the Bank's activity management framework and practices, mainly the management policies regarding the management framework, and reviewing the management framework in order to reflect any changes in the internal and external factors affecting the Bank;
- approving the explicit plan regarding the capital;
- approving and assessing the Bank risk appetite;
- approving the level of interest, commission, fees, costs and other similar bank charges collected and paid by the Bank in line with the budget approved by the General Meeting of Shareholders;
- approving the internal rules of the committees established by the Management Board.

The Members of the Management Board as of 31.12.2017 were as follows:

1. **Sergiu Cristian MANEA** – Executive President, Chairman of the Management Board - mandate valid until 28.02.2022.
2. **Adriana JANKOVICOVA** – Executive Vice-President coordinating the Financial functional line, Member of the Management Board- mandate ended on 31.12.2017.

3. **Bernhard SPALT** – Executive Vice-President, coordinator of the Risk functional line, Member of the Management Board - mandate terminated on 31.12.2017.
4. **Dana Luciana DEMETRIAN** - Executive Vice-President coordinating the Retail and Private Banking functional line, Member of the Management Board, appointed by SB on 01.01.2017 and granted approval by NBR on 20.01.2017 - mandate valid until 31.10.2021.
5. **Ryszard Ferdynand DRUŻYŃSKI** - Executive Vice-President coordinating the Operations & IT functional line, Member of the Management Board, appointed by SB on 01.03.2017 and granted approval by NBR on 06.04.2017 - mandate valid until 31.10.2021.

Management Board members meet the general conditions provided by the law and the special conditions of the Banking Law, National Bank's regulations, and Recruitment and Remuneration Policy of BCR Group management.

Professional experience details of Management Board may be found on the following link: <https://www.bcr.ro/en/about-us/bcr-management>

The Report regarding the activity conducted in 2017 by the BCR Management Board is presented separately to the General Shareholders meeting together with the reports related to the Year End 2017 Financial Statements, included on the meeting's agenda and made available to the shareholders for analysis.

The Management Board may set up committees as it deems necessary and appropriate. Such committee's competencies and authority will be stipulated by the Management Board and responsibilities will be defined by each committee's internal rules. The Management Board's Committees are:

11.4.1 Asset and Liabilities Committee (ALCO)

ALCO reviews, reports to, and assists the Management Board in carrying responsibilities regarding asset and liabilities structure management, financing strategy, interest rate policy, liquidity policy, pricing for savings products/ lending products/ cards, introducing/ suspension or removal the products and services . The committee is a body for analysis and decision that issues decisions and recommendations according to the established authority limits.

The ALCO consists of the Management Board members. The responsibilities, organization, working means and procedures of ALCO are established by the ALCO Internal Rules.

11.4.2 Credit Committee

The Credit Committee reviews, reports to, and assists the Management Board in carrying its responsibilities regarding loans granting, changing of terms and conditions for granting, using and/or securing some previously granted loans, concluding agreements, extending their validity periods, issuing letters of guarantee, factoring and other activities, for retail, corporate and workout customers.

The Credit Committee is made of 5 members. The responsibilities, organization, working means and procedures of Credit Committee are established by the Credit Committee and Subcommittee Internal Rules.

11.4.3 Cost and Investment Committee (CIC)

CIC analyses, decides, informs and assists the Management Board in carrying responsibilities regarding: projects prioritization/ approval/ monitoring, implementation of Change Requests in scope for IT release, definition of costs and investments framework and methodology and group related processes, monitoring of costs and investments, approval of General Administrative Expenses & investments (CAPEX), coordination of property related activities for BCR and Subsidiaries, costs budgeting for BCR Group, setting – up branches and agencies, formulating recommendation regards to Self-Banking strategy, budget and investments and operational improvement, according to the established authority limits.

The CIC is made of 3 members. The responsibilities, organization, working means and procedures of I&D Committee are established by the CIC Internal Rules.

11.4.4 Risk Committee of Management Board

Risk Committee of Management Board is subordinated to the Management Board, and is responsible for approval, pre-approval and reviewing the aspects regarding the risk administration.

The Risk Committee of Management Board is made of all Management Board Members. The responsibilities, organization, working means and procedures of Risk Committee of Management Board are established by the Risk Committee of Management Board Internal Rules.

11.5 Organization of the internal control system's function

Both supervisory and management functions are responsible for the development and maintenance of a proper internal control system ensuring effective and efficient operations, adequate risk control, prudent business conduct, reliable financial and non-financial information reported at internal and external level, as well as compliance with the on-going laws, regulations and the internal policies and procedures.

The internal control system in BCR involves:

- a) the existence of a sound internal control framework in place, ensured by:
 - clear definition of the role and responsibilities of the management body concerning the internal control;
 - identification, assessment and monitoring of significant risks;
 - control activities definition, segregation of duties assurance and conflict of interest avoidance;
 - a transparent framework for information and communication;
 - continuous monitoring of the activities and correcting the deficiencies.
- b) the existence of independent control functions in place (the risk management function, compliance function and internal audit function) with direct line of reporting to the management body.

The Internal Control System is structured on three levels:

1. First-level or line controls is designed to ensure that transactions are carried out correctly. Controls are performed by the entities that take the risks and incorporated in specific procedures. The responsibility of this area is allocated to the Business Management.
2. Second-level of control is the duty of Risk Management Function and Compliance Function.
3. Third-level controls are performed by Internal Audit Function which assesses and regularly checks the completeness, functionality and adequacy of the internal control system. Internal audit is independent of both first and second-level lines.

12 Social responsibility, diversity & development activities

BCR has implemented a management system of environmental, social responsibility, respect for human rights and fighting corruption and bribery, based on the best practices and the principles published and adopted by institutions such as the EBRD and IFC.

BCR has an official internal policy aimed at fighting against bribery and corruption. It has implemented regular training and testing for all its employees in order to acknowledge and implement measures against acts of bribery and corruption. The employees are offered the necessary tools to recognize and report.

In Erste Group there is an official environmental and sustainability policy which is implemented in all the subsidiaries and there is an annual report on the topic.

BCR diversity and inclusion principles are embedded in the Code of Conduct which places emphasis on providing a work environment free of discrimination and harassment and valuing the work and worth of each and every person, regardless of gender, age, marital status, sexual orientation,

disability, race, skin colour, religious or political affiliation, ethnic background, nationality, citizenship or any other aspect unrelated to employment.

12.1 Corporate Social Responsibility

BCR understands Romania and wants to be an active member of the community who intermediates value and brings prosperity in the communities where it works. BCR's strategic directions regarding community involvement are:

- Financial literacy
- Support and promote leaders and role models
- Civic leadership
- Young people empowerment and supporting youth projects

BCR implements the most complex **financial literacy** program for all target groups (adults, teenagers and youth, kids) whose purpose is to make people aware of the importance of financial literacy and to help them identify the factors that influence their financial decisions.

- **Money School** is a national financial literacy program for each age group whose purpose is to help Romanians to better understand and manage their budget and to make them aware of the factors that influence their financial decisions. 1000 BCR employees became financial education teachers through an intensive and out of the box training. They deliver workshops to clients and non-clients that lasts 1.5-2h, in BCR branches or to the companies' headquarters. Participants receive a financial education "kit" that they can use at home as a financial journal. Participants become more aware of the ways they take their financial decisions and how to make a monthly budget. Results: 20000 adults and 15000 teenagers and students trained in 12 months of implementation, 1000 BCR employees became financial education teachers, trainings delivered in 120 companies and 140 public institutions at national level.
- **Money School on Wheels** –FLIP truck - is an itinerant financial education exhibition for kids aged 7-14 whose purpose is to teach kids how to manage their money correctly and why it is important to have a financially responsible behaviour. For an hour and a half, kids enter in the "Money World" where they have to pass through 5 steps together with their allies and friends: Games, Interaction and Joy. 7000 kids have participated to the workshops in the first two months.
- **From play to financial education** – financial education program for kindergarten which consists of a kit (software and a book) who teaches kids aged 4 to 6 years basic notions of financial education. 30.000 kids received this kit free of charge due to BCR sponsoring.

BCR **supports and promotes role models and leaders** by creating a positive and inspirational framework that contributes to the development of Romania by supporting young people with potentials, olympics who can become tomorrow's leaders.

"**Hai la Olimpiada**" is a strategic programme implemented in partnership with EMAG Foundation starting from national STEM Olympiads, international math Olympic team and "centers for performance". Organizing meetings in BCR branches to connect local community (business, mass-media, public institutions) to teachers and pupils from preparation centers for help them develop and become sustainable.

BCR also focuses on **civic leadership** by supporting projects that help hundreds of NGO's annually and by empowering its employees to become active members of the community and to contribute to increasing people's level of trust in themselves and in the contribution that they can have in the society.

"**Bursa Binelui**" is a crowd funding platform focusing on campaigns to encourage and teach NGOs to fundraise using the platform. All donations that are made on the platform go directly to the beneficiaries as BCR covers all transactions costs. Bursa Binelui connects NGOs which implement projects in the communities with people who want to support them.

12.2 BCR policy regarding the environment

Environmental protection and the responsible use of resources are endeavours integrated in the business strategies of environmentally conscious companies world-wide, and in Romania.

Banca Comerciala Romana:

- Admits and accepts the fundamental importance of an integrated approach of the environmental and social factors, as well as of lasting development principles within its financing activity;
- Pays adequate attention to its financing processes, securing before making the financing decision, the compliance of the respective projects with the minimal environmental protection, social protection and occupational safety standards applicable in Romania.

BCR does not finance activities which do not meet environmental requirements specified in the Romanian legislation, relevant international conventions and agreements to which Romania adhered expressly. Analysis of environmental issues is part of the lending process and is mandatory for every transaction.

12.3 Diversity and professional development

Key statistics related to BCR's workforce:

- Gender distribution: 75.84% women and 24.16% men
- Average age: 38.08 years
- Level of studies: 81.33% employees with higher education and 18.67% employees with secondary education

Improvement and professional development

During 2017, there were 16,000 participations to various trainings and workshops organized according to the annual training plan, of which 38% represents participation to technical training courses.

The total average number of training days was 6.33 days per employee, of which in class 4.46 days/employee and 1.86 days/employee in e-learning format.

Employees from the BCR retail units benefited of specialized programs for development of technical skills and other skills necessary in their daily activity. Thus, they participated in courses focused more on customer service in light of the new MIFID regulations, as well as in courses designed to improve the client-bank relationship.

In order to ensure the up-to-date knowledge of BCR's employees from the retail units, regarding the changes of products and services design, BCR organized an internal professional certification process, which is recurring at every three years. Under this certification process are identified the areas of improvement for each employee.

The e-learning platform, produced internally, is actively used for on-line education as well as for regular testing sessions, such as: prevention and combating money laundering, information security, market abuse, financial sanctions, transparency and consumer protection, health and safety at work (SSM), compliance, etc.

In 2017, BCR started a change of organizational culture and for this purpose a series of events and workshops were set, defining the new pillars that would form the basis of a healthy and sustainable organizational culture.

2017 was also the launching year of the national project "School of Money", a project in which BCR employees become "teachers" for various groups: clients, students in order to teach them good practice in their savings, personal budget management, etc. At present, 1,000 employees are enrolled and the project will continue.

13 IFRS 9 Financial instruments

Starting with 1st of January 2018, IFRS 9 *Financial Instruments* became effective as the new applicable financial and reporting standard replacing IAS 39 *Financial Instruments* applicable until 31st December 2017.

IFRS 9 addresses the classification and measurement of financial assets and liabilities, introduces a new impairment model for financial assets and new principles for hedge accounting. **The impact from IFRS 9 transition is described in the Separate and Consolidated Financial Statements as at 31.12.2017, Note 2 Accounting Policies (point 2.5.) IFRS 9: Financial Instruments.**

13.1 Impact of transition

The impact in Bank's equity accounts as at 1st January 2018 due to IFRS 9 transition is presented below:

| | Bank | | |
|--|----------------------|----------------------|----------------------|
| in RON thousands | 31.12.2017 IAS 39 | 01.01.2018 IFRS 9 | Nominal variation |
| Share capital | 1,625,342 | 1,625,342 | - |
| Adjustment of the capital – Hyperinflation | 1,327,224 | 1,327,224 | - |
| Merger premium | 395,483 | 395,483 | - |
| Other reserves | 1,130,670 | 1,130,670 | - |
| <i>Legal statutory reserves</i> | 569,355 | 569,355 | - |
| <i>General reserve regarding credit risk set up from profit before tax</i> | 162,935 | 162,935 | - |
| <i>Reserve on general banking risks</i> | 267,673 | 267,673 | - |
| <i>Other reserves</i> | 130,706 | 130,707 | - |
| Revaluation reserve | 311,639 | 330,459 | 18,819 |
| Retained earnings¹ | 2,083,989 | 2,016,622 | (67,367) |
| Net profit | 570,310 | 570,310 | - |
| TOTAL | 7,444,657 | 7,396,110 | (48,548) |

¹ The retained earnings include the loss not covered since 2014

The main drivers for the IFRS 9 impact on the opening equity accounts are related to:

- change of the impairment methodology for debt financial instruments;
- reclassification of debt securities in accordance with the results of Business Model Assessment.

Taking into account the above mentioned, the Supervisory Board proposes to the General Meeting of Shareholders:

- The impact on the own capital as effect of the transition to IFRS 9 – Financial Instruments – the new financial and reporting standard as at 1.01.2018 in total amount of RON (48,548) thousands.

13.2 Proposed treatment for sale of equity investments classified as “Hold to Collect and Sale”

Going further in 2018, in case of sale of equity investments classified under IFRS 9 in the business model “Hold to Collect and Sale” and consequently, accounted for as FVTOCI, the accumulated gain or loss remains in Other Comprehensive Income (it could not be subsequently transferred to Profit or Loss account). The gain or loss of the selling can be transferred from revaluation reserve related to these items into own equity accounts (other than Profit and Loss account).

In accordance with the provisions of Chapter II "Basic Tier 1 Own Funds" Section 1, Article 26, paragraph 1 of the Regulation no. 575/ 2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/ 2012, the elements of own funds such as: retained earnings, other items of accumulated comprehensive income, other reserves and funds for general banking risks are to be considered as elements of Own Funds Tier 1 only if they are available for the Bank for unrestricted and immediate use in order to cover risks or losses as soon as they appear.

Taking into account the above mentioned, the Supervisory Board proposes to the General Meeting of Shareholders:

- In case of selling of equity investment classified as "Hold to Collect and Sell" and accounted for as FVTOCI, the result of selling to be booked in "Retained Earnings" account through transfer from Revaluation Reserve;
- To include in Own Funds Tier 1, in accordance with Regulation 575/2013 for unrestricted and immediate use in order to cover risks or losses as soon as they appear until other decisions taken by General Meeting of Shareholders.

13.3 Tax impact as at 1st January 2018 as effect of IFRS 9 transition

At transition date from IAS 39 to IFRS 9 at 1st of January 2018, the Bank recognised the related fiscal impact, namely, additional current or deferred tax, where the case, for the accounting adjustments made for the changes in the accounting policies.

Considering the lack of the fiscal legislation in relation with these items, the Bank's approach was:

- in case of adjustments made to expected credit losses: no current or deferred tax was recognized because there is no enforced legal provision in place at the transition date;
- for all other transitional adjustments: it was applied the tax treatment accepted by the tax authorities at the moment of transition to IFRS as accounting and reporting base (1st of January 2012) for similar adjustments.

Thus, the Bank recognized as at 1st of January 2018:

- Additional current tax claim in total amount of RON 1,966 thousands;
- Additional deferred tax liability in total amount of RON 5,492 thousands.

Supervisory Board Chairman,

Manfred Wimmer

