Banca Comerciala 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 2018

Contents of the consolidated and separated financial statements

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 give a true and fair view of the consolidated financial position of Banca Comercială Romană S.A. (the "Bank") and its subsidiaries (together the "Group") as at 31 December 2018, and of 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 ("NBR") 27/2010 "for approving accounting Regulations in accordance with International Financial Reporting Standards, applicable to credit institutions" and subsequent amendments ("NBR Order 27/2010"); and
- the separate financial statements give a true and fair view of the financial position of the Bank as at 31 December 2018, and of 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 Audit Committee dated 22 March.

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 140, comprise:

- the Statement of Profit or Loss - Consolidated and Separate for the year ended 31 December 2018;
- the Statement of Other Comprehensive Income - Consolidated and Separate for the year ended 31 December 2018;
- the Statement of Financial Position - Consolidated and Separate as at 31 December 2018;

This version of our report/the accompanying documents is a translation from the original, which was prepared in Romanian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

- the Statement of Changes in Equity - Consolidated and Separate for the year ended 31 December 2018;
- the Statement of Cash Flows - Consolidated and Separate for the year ended 31 December 2018; and
- the notes to the financial statements - consolidated and separate for the year ended 31 December 2018, which include a summary of significant accounting policies and other explanatory information.

The consolidated financial statements as at 31 December 2018 are identified as follows:

- Total equity and reserves: RON 8,366,714 thousands;
- Net profit for the year: RON 1,202,263 thousands.

The separate financial statements as at 31 December 2018 are identified as follows:

- Total equity and reserves: RON 8,138,075 thousands;
- Net profit for the year: RON 970,447 thousands.

The Bank's registered office is in Calea Victoriei 15, Bucharest, 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 regarding statutory audit of annual financial statements and annual consolidated financial statements and regarding changes to other regulations ("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

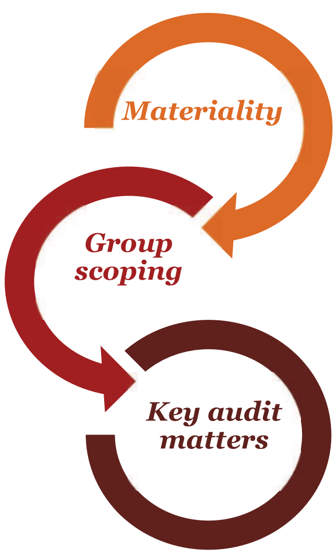
Regulation and the Law and we have fulfilled the ethical responsibilities in accordance with these requirements and IESBA Code.

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 Regulation .

The non-audit services that we have provided to the Group and the Bank, in the period from 1 January 2018 to 31 December 2018, are disclosed in Note 49 “Audit fees and tax consultancy fees” to the financial statements.

Our audit approach

Overview



Overall materiality:

RON 59,528 thousands for both consolidated and separate financial statements.

Group scoping:

We planned and scoped our audit for 2018 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:

- Application of IFRS 9 in the calculation of impairment of loans and advances to customers;
- 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 from 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. As in all our audits, 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 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 2018 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 (81%+). 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. We applied analytical procedures to the financial information of the remaining banking subsidiaries of the Group (BCR Banca Pentru Locuinte SA and BCR Chisinau SA) and on the remaining components no procedures were considered necessary.

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 59,528 thousands
How we determined it	Approximately 5% of profit before tax per the separate statement of comprehensive income for the year ended 31 December 2018
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 2,976 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.

Key audit matter	*How our audit addressed the key audit matter*
Application of IFRS 9 in the calculation of impairment of loans and advances to customers We focused on this area because the management makes complex and subjective judgements over both the timing of recognition of expected credit losses ('ECL') and the estimation of the size of ECL, which is a complex area of accounting.	In relation to implementation of the new ECL models, we assessed the compliance of key methodologies and models with the requirements of IFRS 9. We engaged our credit risk technical experts to assist us in undertaking this assessment. Model performance monitoring controls were tested including reviewing and assessing the

On 1 January 2018, IFRS 9 was adopted by the Group and replaced the previously applied IAS 39 for credit loss allowance (which is still applied in the financial statements for the 2017 comparative period). Under IFRS 9, the basis of creating credit loss allowances is significantly different from the previous standard and the new disclosure requirements are also significantly different. Therefore we applied additional focus to the design and application of the new comprehensive ECL models introduced by the management to assist them to comply with IFRS 9.

The new IFRS 9 impairment approach requires ECL allowances for all exposures from the time a loan is originated, based on the deterioration of credit risk since initial recognition. If the credit risk has not increased significantly (Stage 1), IFRS 9 requires allowances based on 12 month expected credit losses. If the credit risk has increased significantly (Stage 2) or if the loan is 'credit impaired' (Stage 3), the standard requires allowances based on lifetime expected credit losses.

ECL allowance for Stage 1, Stage 2 and non-significant Stage 3 loans and advances to customers is performed collectively, with the key assumptions being the probability of an account falling into arrears and subsequently defaulting, definition of significant increase in credit risk, exposure at the moment of default and the estimated recoveries from defaulted loans. Statistical models are used for determination of the key assumptions including different future macro economic scenarios.

For significant loans and advances in Stage 3, ECL are assessed individually based on probability weighted scenarios of cash flow forecasts. The key assumptions here are the expected cash flows (from both operating cash flows and recoveries from

independent model validation framework, validation results and overall model governance for IFRS 9.

We also assessed the updated methodology and reasonableness of the multiple economic scenarios including the severity and magnitude of modelled scenarios and how they are considered and applied to the assumptions obtained from statistical models used in arriving at the overall ECL at the balance sheet date.

We tested on a sample basis the key controls over the inputs of critical data, into source systems, and the flow and transformation of data between source systems to the ECL calculation engine. Substantive testing was performed over the critical data used in the year-end ECL calculation.

We tested a sample of the statistical models used by the management to determine key assumptions (probability of default, loss given default and exposure at default) to assess whether the calculation process was consistent with our expectations.

We also independently recomputed ECL for a sample of loans using the key assumptions determined by management.

We assessed management's user acceptance testing over the ECL calculation engine to ensure it is performed in line with business requirements.

We verified the reconciliation of the output of the ECL calculation engine with the accounting records.

We tested the approval of the key inputs, assumptions and discounted cash-flows from both operating cash flows and recoveries from collateral that support the significant collateral) and the weighting attached to the different scenarios.

As this is the first year of adoption of IFRS 9, there is limited experience available to back-test the estimate of ECL against the actual results. There is also a significant increase in the number of data inputs required for the ECL calculation. The data is sourced from a number of systems that have not been used previously for the preparation of the accounting records. This increases risk around completeness and accuracy of certain data used to create assumptions and operate the models.

Note 2.2 “Significant accounting judgements and estimates”, Note 2.3 – “Summary of significant accounting policies”, Note 2.4 “Changes in accounting policies and disclosures”, Note 26 “Financial assets at amortised cost under IFRS 9” and Note 46 “Risk management” to the financial statements provide detailed information on the ECL for loans and advances to customers and the effect of adoption of new ECL models.

individual ECL, and substantively tested a sample of individually assessed loans.

Litigation provisions for allegedly abusive clauses in loan contracts

We focused on the provision for allegedly abusive clauses recorded in the “Provisions” line in Note 37 - “Provisions” 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

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 reasonability 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 and possible future claims. We validated for a sample of closed litigations the settlement cash out-flow required to settle 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" and Note 37 – "Provisions" to the financial statements.

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 50 "Contingent liabilities and commitments" 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 in 2017, the Romanian Tax Authority increased the taxable base of Corporate Income Tax for the period 2012 – 2015 under review and based on these adjustments an additional Corporate Income Tax Liability has been

Together with our tax specialists, we examined the current year 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 available evidence and the approach taken by management of the Bank to conclude that only a contingent liability should be recognized for any potential obligation regarding additional Corporate Income tax liability from the matter for the period from 2016 - 2018 and that only a contingent liability should be recognized for recognised in 2017. Also, additional value added tax (VAT) was identified. The Bank settled the additional liabilities identified by 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 provisions for a potential obligation regarding additional Corporate Income Tax Liability for the period 2016 – 2018 and regarding additional Withholding Tax Liability for the period 2014 – 2018 related to the financial transactions challenged by the Romanian Tax Authority in their aforementioned inspection report. 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.

See also Note 2.2 – "Significant accounting judgments and estimates", Note 13 – "Taxes on income" and Note 50 – "Contingent liabilities and commitments" to the financial statements.

any potential obligation regarding additional Withholding Tax that the Romanian Tax Authorities can legitimately charge.

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 related to Corporate Income Tax for 2016 – 2018 and Withholding Tax for 2014 - 2018 are subject to inherent uncertainty and the final resolution of these matters may not be in line with management's current assessment.

Non-current tax asset resulting from 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

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 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, 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 and given no significant changes occurred in 2018 with regards to the litigation against the Romanian Tax Authority the balance of this non-current tax asset changed only with the discounting effect, reaching RON 179 million as at 31 December 2018.

See Note 32 – “Tax assets and liabilities” to the financial statements.

the Bank’s external tax advisors, between the Bank and its external legal advisers.

Taking into account our understanding of Romanian tax legislation and other factors affecting this issue we concur with management’s assertion it is appropriate for the impairment expense in subsidiaries recorded during the period 2012 – 2015 to be treated as deductible and a non-current income tax asset to continue to be recognised in the 2018 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.

Reporting on other information including the Administrators’ Report

The Administrators are responsible for other information. The other information comprises the Administrators’ Report and the Non-Financial Statement but does not include the financial statements and our auditor’s report thereon. We obtained the 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 and the Non-Financial Statement.

In connection with our audit of the financial statements, our responsibility is to verify whether 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 exclusively 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 for the financial year ended 31 December 2018, 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 these financial statements that give a true and fair view in accordance with IFRS and the NBR Order 27/2010 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with 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 the 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 Group's or 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 first appointed as auditors of the Bank on 27 January 2017. Our appointment has been renewed annually by Ordinary General Shareholders' resolution representing a total period of uninterrupted engagement appointment of 2 years covering the FY ended 31 December 2017 and 31 December 2018.

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

Refer to the original signed Romanian version

Paul Facer
Financial auditor registered with
the Public Electronic Register of financial auditors and audit firms under no. 3371

On behalf of

PricewaterhouseCoopers Audit SRL
Audit firm registered with
the Public Electronic Register of financial auditors and audit firms under no. 6

Bucharest, 22 March 2019

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Consolidated and Separate for the year ended 31 December 2018

Statement of profit or loss

	Notes	Group		Bank	
in RON thousands		**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**
Net interest income	3	**2,047,195**	**1,764,197**	**1,946,477**	**1,678,727**
Interest income		2,545,368	2,195,669	2,392,496	2,038,192
Other similar income		38,693	40,835	38,489	40,571
Interest expense		(513,662)	(451,079)	(461,631)	(378,830)
Other similar expense		(23,204)	(21,228)	(22,877)	(21,206)
Net fee and commission income	4	**706,814**	**700,738**	**673,853**	**661,160**
Fee and commission income		881,176	845,336	824,162	792,219
Fee and commission expense		(174,362)	(144,598)	(150,309)	(131,059)
Dividend income	5	3,731	4,155	11,684	19,872
Net trading result	6	431,709	329,191	426,985	329,214
Gains/losses from financial instruments measured at fair value through profit or loss	7	18,429	1,689	18,429	1,689
Foreign currency translation		(3,347)	23,815	(6,209)	17,251
Net result from equity method investments	29	2,651	807	-	-
Rental income from investment properties and other operating leases	8	78,388	63,289	11,045	9,840
Personnel expenses	9	(780,810)	(741,664)	(684,947)	(661,913)
Other administrative expenses	9	(671,461)	(635,573)	(689,897)	(652,791)
Depreciation and amortisation	9	(197,901)	(166,983)	(136,238)	(117,269)
Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss	10	2,221	151	2,221	151
Net impairment loss on financial instruments	11	(121,217)	(32,418)	(122,361)	(22,699)
Other operating result, out of which	12	**(87,920)**	**(406,259)**	**(260,487)**	**(456,210)**
Other income		282,442	225,170	175,707	100,606
Other expense		(370,362)	(631,429)	(436,194)	(556,816)
Pre-tax result from continuing operations		**1,428,482**	**905,135**	**1,190,555**	**807,022**
Taxes on income	13	(226,219)	(237,008)	(220,108)	(236,712)
Net result for the period		**1,202,263**	**668,127**	**970,447**	**570,310**
Net result attributable to non-controlling interests		10	6	-	-
Net result attributable to owners of the parent		**1,202,253**	**668,121**	**970,447**	**570,310**

Statement of other comprehensive income

	Group		Bank	
in RON thousands	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**
Net result for the period	**1,202,263**	**668,127**	**970,447**	**570,310**
Other comprehensive income				
Items that may not be reclassified to profit or loss				
Remeasurement of net liability of defined pension plans	279	5,230	337	5,150
Fair value changes of equity instruments at fair value through other comprehensive income	(180,039)		(180,039)	
Deferred taxes relating to items that may not be reclassified	28,762	(837)	28,752	(824)
Total items that cannot be reclassified to profit or loss	**(150,998)**	**4,393**	**(150,950)**	**4,326**
Items that may be reclassified to profit or loss				
Available for sale reserve (including currency translation)		(50,876)		(26,443)
Gain/loss during the period		(51,297)		(26,858)
Reclassification adjustments		421		415
Debt instruments at fair value through other comprehensive income	(54,646)	-	(54,908)	-
Currency translation	4,770	5,039	-	-
Deferred taxes relating to items that may be reclassified	9,149	8,118	9,141	4,231
Total	**(40,727)**	**(37,719)**	**(45,767)**	**(22,212)**
Total other comprehensive income	**(191,725)**	**(33,326)**	**(196,717)**	**(17,886)**
Total comprehensive income	**1,010,538**	**634,801**	**773,730**	**552,424**
Total comprehensive income attributable to non-controlling interests	10	(3,821)	-	-
Total comprehensive income attributable to owners of the parent	1,010,528	638,622	773,730	552,424

AUTHORISED PERSON,
First name and name
Signature

Executive Vice-President,

Elke Meier

BANCA COMERCIALĂ ROMÂNĂ * BCR * Cabinet Vice Președinte Financiar

AUTHORISED PERSON,
First name and name
Signature

Executive Director Accounting Division,

Gina Badea

STATEMENT OF FINANCIAL POSITION
Consolidated and Separate as at 31 December 2018

Statement of financial position

		Group		Bank	
in RON thousands	**Notes**	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**
Assets					
Cash and cash balances	15	11,123,191	11,369,344	10,862,852	11,245,387
Financial assets held for trading		213,965	104,694	214,092	104,694
Derivatives	16	31,062	41,449	31,189	41,449
Other financial assets held for trading	17, 23	182,903	63,245	182,903	63,245
Financial assets designated at fair value through profit or loss	18		15,131		15,131
Non-trading financial assets at fair value through profit or loss	19, 23	39,395		39,152	
Equity instruments		33,475		33,232	
Loans and advances to customers		5,920		5,920	
Financial assets available for sale	20, 23		6,599,950		6,146,992
thereof pledged as collateral			141,831		557,101
Financial assets at fair value through other comprehensive income	23	5,222,081		5,187,019	
Equity investments		40,721		40,721	
Debt securities	21, 23	5,181,360		5,146,298	
thereof pledged as collateral		-		41,748	
Financial assets - held to maturity	22, 23		14,756,894		13,375,729
thereof pledged as collateral			-		551,355
Loans and advances to banks	24		2,215,113		2,420,035
Loans and advances to customers	25		33,490,883		32,020,306
Financial assets at amortised cost	26	50,843,219		48,732,568	
thereof pledged as collateral		690,952		1,693,280	
Debt securities	26, 23	15,879,108		14,297,905	
Loans and advances to banks	26	123,840		388,848	
Loans and advances to customers	26	34,840,271		34,045,815	
Finance lease receivables	27	990,868		-	
Property and equipment	30	1,169,260	1,315,683	760,646	1,015,988
Investment property	30	162,806	121,490	162,806	121,490
Intangible assets	31	361,898	320,872	354,020	314,231
Investments in joint ventures and associates	29	20,027	17,375	7,509	7,509
Current tax assets	32	181,800	86,736	178,822	83,435
Deferred tax assets	32	202,165	168,778	197,061	157,361
Assets held for sale	33	161,114	43,039	117,699	14,792
Trade and other receivables	28	563,014		543,179	
Investments in subsidiaries	34	-	-	403,152	533,510
Other assets	34	275,502	305,257	148,677	157,895
Total assets		**71,530,305**	**70,931,239**	**67,909,254**	**67,734,485**

Liabilities and Equity					
Financial liabilities held for trading		32,988	44,661	32,988	44,661
Derivatives	16	32,988	44,661	32,988	44,661
Financial liabilities measured at amortised cost	35	61,618,808	62,007,067	58,326,984	58,920,983
Deposits from banks	35	2,127,723	3,205,191	3,076,973	4,180,001
Borrowings and financing lines	35	2,408,375	2,249,500	672,249	838,133
Deposits from customers	35	55,098,959	52,496,062	52,593,690	49,885,158
Debt securities issued	35	349,153	539,648	349,153	539,648
Subordinated loans	35	1,041,982	2,371,499	1,041,982	2,371,499
Other financial liabilities	36	592,616	1,145,167	592,937	1,106,544
Provisions	37	1,151,688	1,192,565	1,120,255	1,149,625
Current tax liabilities	32	97,782	230	97,110	-
Deferred tax liabilities	32	-	25	-	-
Liabilities associated with assets held for sale	33	15,438	12,819	-	-
Other liabilities	38	246,887	234,759	193,842	174,559
Total equity		**8,366,714**	**7,439,113**	**8,138,075**	**7,444,657**
Share capital		2,952,565	2,952,565	2,952,565	2,952,565
Retained earnings		3,766,482	2,667,566	3,525,615	2,654,298
Other reserves		1,647,667	1,818,982	1,659,895	1,837,794
attributable to non-controlling interest		46	36	-	-
attributable to owners of the parent		8,366,668	7,439,077	-	-
Total liabilities and equity		**71,530,305**	**70,931,239**	**67,909,254**	**67,734,485**

AUTHORISED PERSON,
First name and name
Signature

Executive Vice-President,

Elke Meier

AUTHORISED PERSON,
First name and name
Signature

Executive Director Accounting Division,

Gina Badea

STATEMENT OF CHANGES IN EQUITY

Consolidated and Separate for the year ended 31 December 2018

Statement of changes in equity

											31.12.2018	Group
in RON thousands	**Share capital**	**Share premium**	**Retained earnings**	**Other reserves*** **	**Available for sale reserves**	**Fair value reserve** **	**Currency translation reserve**	**Remeasurement of net liability of defined pension plans**	**Deferred tax**	**Equity attributable to owners of the parent**	**Equity attributable to non-controlling interests**	**Total**
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**
Efect of changes in accounting policies recognised in accordance with IAS 8*	-	-	(71,582)	-	(288,082)	312,144	-	-	(3,652)	(51,172)	-	(51,172)
Restated balance as of 01.01.2018	**2,952,565**	**395,483**	**2,595,948**	**1,130,670**	**-**	**312,144**	**(18,502)**	**82,546**	**(62,949)**	**7,387,905**	**36**	**7,387,941**
Dividends paid	-	-	(228,063)	-	-	-	-	-	-	(228,063)	-	(228,063)
Reclassification from OCI to RE**	-	-	196,298	-	-	-	-	-	-	196,298	-	196,298
Total comprehensive income	**-**	**-**	**1,202,253**	**-**	**-**	**(234,685)**	**4,770**	**279**	**37,911**	**1,010,528**	**10**	**1,010,538**
Consolidated profit or loss	-	-	1,202,253	-	-	-	-	-	-	1,202,253	10	1,202,263
Other comprehensive income	-	-	-	-	-	(234,685)	4,770	279	37,911	(191,725)	-	(191,725)
Total equity as of 31.12.2018	**2,952,565**	**395,483**	**3,766,436**	**1,130,670**	**-**	**77,459**	**(13,732)**	**82,825**	**(25,038)**	**8,366,668**	**46**	**8,366,714**

*Impact from IFRS 9, more details in transition note, chapter 2.3

** The decrease of fair value reserve and the reclassification from OCI to RE is mainly due to sale of Visa and Mastercard shares.

***Other reserves include legal reserves and general banking risk reserve.

											31.12.2017	Group
in RON thousands	**Share capital**	**Share premium**	**Retained earnings**	**Other reserves*** **	**Available for sale reserves**	**Fair value reserve** **	**Currency translation reserve**	**Remeasurement of net liability of defined pension plans**	**Deferred tax**	**Equity attributable to owners of the parent**	**Equity attributable to non-controlling interests**	**Total**
Total equity as of 01.01.2017	**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**

Statement of changes in equity *(continued)*

									31.12.2018	Bank
in RON thousands	**Share capital**	**Share premium**	**Retained earnings**	**Other reserves*** **	**Available for sale reserves**	**Fair value reserve****	**Currency translation reserve**	**Remeasurement of net liability of defined pension plans**	**Deferred tax**	**Total**
Total equity as of 31.12.2017	**2,952,565**	**395,483**	**2,654,299**	**1,130,670**	**288,452**	**-**	**-**	**82,546**	**(59,358)**	**7,444,657**
Efect of changes in accounting policies recognised in accordance with IAS 8*	-	-	(67,366)		(288,452)	310,856			(3,585)	(48,547)
Restated balance as of 01.01.2018	**2,952,565**	**395,483**	**2,586,933**	**1,130,670**	**-**	**310,856**	**-**	**82,546**	**(62,943)**	**7,396,110**
Dividends paid	-	-	(228,063)	-	-	-	-	-	-	(228,063)
Reclassification from OCI to RE**	-		196,298	-	-	-	-	-	-	196,298
Total comprehensive income	**-**	**-**	**970,447**	**-**		**(234,947)**	**-**	**337**	**37,893**	**773,730**
Consolidated profit or loss			970,447	-	-	-	-	-	-	970,447
Other comprehensive income	-	-	-	-		(234,947)	-	337	37,893	(196,717)
Total equity as of 31.12.2018	**2,952,565**	**395,483**	**3,525,615**	**1,130,670**	**-**	**75,909**	**-**	**82,883**	**(25,050)**	**8,138,075**

*Impact from IFRS 9, more details in transition note, chapter 2.3

** The decrease of fair value reserve and the reclassification from OCI to RE is mainly due to sale of Visa and Mastercard shares.

***Other reserves include legal reserves and general banking risk reserve.

									31.12.2017	Bank
	Share capital	**Share premium**	**Retained earnings**	**Other reserves*** **	**Available for sale reserves**	**Fair value reserve****	**Currency translation reserve**	**Remeasurement of net liability of defined pension plans**	**Deferred tax**	**Total**
Total equity as of 01.01.2017	**2,952,565**	**395,483**	**2,083,989**	**1,130,670**	**314,895**	**-**	**-**	**77,396**	**(62,765)**	**6,892,233**
Total comprehensive income	**-**	**-**	**570,310**	**-**	**(26,443)**	**-**	**-**	**5,150**	**3,407**	**552,424**
Net profit/loss for the period	-	-	570,310	-	-	-	-	-	-	570,310
Statement of comprehensive income	-	-		-	(26,443)	-	-	5,150	3,407	(17,886)
Total equity as of 31.12.2017	**2,952,565**	**395,483**	**2,654,299**	**1,130,670**	**288,452**	**-**	**-**	**82,546**	**(59,358)**	**7,444,657**

STATEMENT OF CASH FLOWS

Consolidated and Separate for the year ended 31 December 2018

Statement of cash flows

	Group		Bank	
in RON thousands	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**
Net result for the period	**1,202,263**	**668,127**	**970,447**	**570,310**
Non-cash adjustments for items in net profit/(loss) for the year				
Depreciation, amortisation of assets	197,901	166,983	136,238	117,269
Allocation to and release of impairment of loans	170,821	123,719	146,466	83,983
Gains/(losses) from the sale of tangible and intangible assets	(7,945)	(2,194)	(12,648)	(2,790)
Other provisions	(28,969)	131,401	(17,448)	131,401
Impairment of subsidiaries	-	-	166,410	97,410
Impairment tangible and intangible assets	94,636	73,560	96,024	70,375
Current and deferred tax not paid	(6,908)	237,008	(3,610)	236,712
Other adjustments	(12,284)	186,978	(12,242)	214,581
Adjustments for items in net profit/(loss) for the year	(542,504)	(345,444)	(510,827)	(326,015)
Interest income from investing activities	(672,116)	(480,410)	(615,632)	(433,008)
Interest expense for financing activities	129,612	134,966	112,758	122,710
Dividend income from investing activities	-	-	(7,953)	(15,717)
Changes in assets and liabilities from operating activities after adjustment for non-cash components				
Financial assets - held for trading	(119,658)	496,468	(119,658)	496,468
Non-trading financial assets at fair value through profit or loss	14,720	-	14,720	-
Financial assets - available for sale	-	(1,076,739)	-	(1,328,131)
Financial assets at fair value through other comprehensive income	51,679	-	58,044	-
Financial assets - held to maturity	-	(3,117,152)	-	(2,841,802)
Loans and advances to credit institutions	-	(1,663,796)	-	(1,770,134)
Loans and advances to customers	-	(1,453,356)	-	(1,071,668)
Financial assets at amortised cost	(1,067,033)	-	(769,762)	-
Loans and advances to banks	2,075,058	-	2,015,026	-
Loans and advances to customers	(3,142,091)	-	(2,784,788)	-
Other assets from operating activities	29,754	47,667	9,771	27,539
Financial liabilities measured at amortised cost	1,002,933	2,966,909	1,120,652	3,483,210
Deposits from banks	(1,048,821)	(1,742,276)	(1,075,682)	(1,446,082)
Deposits from customers	2,604,305	4,273,014	2,709,941	4,530,880
Other financial liabilities	(552,551)	436,171	(513,607)	398,412
Other liabilities from operating activities	12,131	(82,544)	19,283	(68,167)
Cash flow from operating activities	**991,537**	**474,747**	**1,291,860**	**962,353**
Proceeds of disposal	1,261,843	1,851,159	922,799	1,549,878
Financial assets - held to maturity	-	1,761,132	-	1,536,610
Debt securities	998,355	-	684,090	-
Financial assets at fair value through other comprehensive income	198,641	-	198,641	-
Property and equipment, intangible assets and investment properties	64,847	90,027	40,068	13,268
Acquisition of	(1,408,856)	(3,002,011)	(1,122,831)	(2,804,596)
Financial assets - held to maturity	-	(2,640,477)	-	(2,594,013)
Debt securities at amortised cost	(1,013,296)	-	(926,943)	-
Property and equipment, intangible assets and investment properties	(395,560)	(361,534)	(195,888)	(210,583)
Contribution to increase in share capital of subsidiaries	-	-	(30,000)	(22,079)
Interest received from investing activities	656,890	480,410	603,157	433,008
Dividends received from investing activities	-	-	7,953	15,717
Cash flow from investing activities	**509,877**	**(670,442)**	**381,078**	**(828,072)**
Dividends paid to equity holders of the parent	(213,476)	-	(213,476)	-
Dividends paid to non-controlling interests	(14,587)	-	(14,587)	-
Debt securities issued	(219,251)	(80,005)	(219,251)	(80,005)
Inflows from other financing activities	782,144	460,257	-	-
Outflows from other financing activities	(1,950,510)	(592,142)	(1,492,303)	(335,057)
Interest expense paid for financing activities	(131,887)	(134,966)	(115,856)	(122,710)
Other financing activities	(32,004)	(33,209)	(15,973)	(20,953)
Subordinated loans	(99,883)	(101,757)	(99,883)	(101,757)
Cash flow from financing activities	**(1,747,567)**	**(346,856)**	**(2,055,473)**	**(537,772)**
Cash and cash equivalents at beginning of period	**11,369,344**	**11,911,895**	**11,245,387**	**11,648,878**
Cash flow from operating activities	991,537	474,747	1,291,860	962,353
Cash flow from investing activities	509,877	(670,442)	381,078	(828,072)
Cash flow from financing activities	(1,747,567)	(346,856)	(2,055,473)	(537,772)
Cash and cash equivalents at end of period	**11,123,191**	**11,369,344**	**10,862,852**	**11,245,387**

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 2018, Erste Bank purchased further 37.9976% from employees and other shareholders of the Bank, adding up to 99.8776%, being the direct parent of the Bank. Erste Bank der oesterreichischen Sparkassen AG ('Erste Bank') its owned 100% by Erste Group Bank AG. 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 15, Calea Victoriei, Bucharest, Romania.

The consolidated financial statements for the year ended 31 December 2018 were authorized for issue in accordance with a resolution of the Management Board on 12 March 2019.

The financial statements are audited by PricewaterhouseCoopers Audit SRL starting with the financial exercise ended 31 December 2017.

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 separate and 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 financial assets at fair value through other comprehensive income, trading financial assets, derivative financial instruments, non-trading financial assets at fair value through profit or loss and financial assets designated at fair value through profit or loss.

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 51.

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 2018 and 31 December 2017:

	Company's name	Country of incorporation	Nature of the business	Shareholding 2018	Shareholding 2017	Gross Book Value	Net Book Value	Impaiment
1	BCR Chisinau SA	Moldova	Banking	100.00%	100.00%	200,064	51,174	148,890
2	BCR Leasing IFN SA	Romania	Financial leasing	99.97%	99.97%	389,492	190,273	199,219
3	BCR Pensii, Societate de Administrare a Fondurilor de Pensii Private SA	Romania	Pension Fund	99.99%	99.99%	269,820	159,805	110,015
4	BCR Banca pentru Locuinte SA	Romania	Housing loans	99.99%	99.99%	108,078	-	108,078
5	Suport Colect SRL	Romania	Workout	99.99%	99.99%	983,047	-	983,047
6	CIT One SRL	Romania	Cash processing and storing	100.00%	100.00%	13,308	7,255	6,053
7	BCR Payments Services SRL	Romania	Payments transactions	99.99%	99.99%	1,900	1,900	-
8	BCR Fleet Management SRL *	Romania	Operational leasing	99.97%	99.97%	-	-	-

*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 profit or loss and other comprehensive income ('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 Bank determines whether there is objective evidence that the investment in the subsidiary is impaired. If there is such evidence, the Bank calculates the amount of impairment as the difference between the recoverable amount of the subsidiary and its carrying value, then, recognizes the loss under Other Operating Result in the statement of profit or loss of the parent company. On Group level, there is no effect, as it is eliminated on consolidation.

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. As a general rule, significant influence is presumed to mean an ownership interest of between 20% and 50%, but this percentage is correlated with the assessment of potential voting rights (like those arising from share warrants, share call options or debt-to-equity convertibles), if they are currently exercisable or convertible.

The judgments 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 statement of profit of loss, line "Net result from equity method investments". 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.

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

Upon loss of significant influence over the associate, the Bank 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) SPPI assessment

The assessment of whether the contractual cash flows of financial assets give rise to cash flows that are solely payments of principal and interest (SPPI) is subject to the application of significant judgements.

These judgements are crucial in the IFRS 9 classification and measurement process as they determine whether the asset must be measured at FVPL or, depending on the business model assessment, at amortised cost or at FVOCI.

When taking into consideration specific features of loans in the business of BCR Group, significant areas of judgement are prepayment fees, project financing loans and benchmark test for loans with interest mismatch features.

The assessment whether the prepayment fees applied to loans can be considered as a reasonable compensation for early terminations or prepayments is based on comparing the level of the fees with the economic costs incurred by the bank upon the early termination.

For these purposes, BCR Group uses a quantitative test where the costs relate to the lost interest margin and the lost interest differential due to a decrease in the interest rates upon early termination or prepayment.

The evaluation is normally performed on a portfolio level. The adequacy of the fees can also be defended on a qualitative basis such as common market practice regarding level of prepayment fees and their acceptance by authorities.

2. Accounting policies *(continued)*
2.2. Significant accounting judgments and estimates *(continued)*

For project financing loans, BCR Group assesses whether they represent basic loan agreements rather than investments in the financed projects. In this respect credit rating, level of collateralisation, existing sponsor guarantees and the extent of equity funding of the financed projects are considered.

Interest mismatches relate mainly to floating rate agreements for which the floating base rate is contractually repriced based on past date price (ex. loans with rate linked to 3-month Euribor and reset frequency of 3 months but the rate is always fixed as of the last day of previous month).

For this purpose, BCR Group has developed what is called a 'benchmark test' to assess whether the interest mismatch feature could result in contractual (undiscounted) cash flows that are significantly different from benchmark deal.

Apart from the interest mismatch features, the terms of this benchmark deal correspond to the asset in the test (i.e. if the floating rate reset frequency is 3 months then the floating rate would be the 3-month Euribor and/or no time lag exists in the floating rate fixation).

For assets with interest mismatches resulting only from prior and average rates (i.e. no mismatches resulting from a tenor different from the reset frequency), SPPI compliance is considered to be met based on a qualitative assessment if the time lag between the fixation of the rate and the start of the interest period does not exceed one month.

The quantitative benchmark test is performed at the deal's initial recognition and compares the present value of the original loan with the present value of the benchmark loan.

The quantitative significance threshold is set to 5%. If the significance thresholds is breached, the benchmark test is not passed, and the financial asset must be measured at fair value through profit or loss.

(2) Business model assessment

For each SPPI-compliant financial asset at initial recognition, BCR Group must assess whether it is part of a business model where the assets are held in order to collect contractual cash flows, to both collect the contractual cash flows and sell the assets, or they are held in other business models.

As a consequence, the critical aspect in distinguishing the business models is frequency and significance of sales of assets in the respective business model. Since asset allocation to business models is based on the initial assessment, it may happen that in subsequent periods cash flows are realised differently than originally expected, and a different measurement method may seem to be appropriate.

In accordance with IFRS 9, such subsequent changes do not generally lead to reclassifications or prior period error corrections in respect of existing financial assets.

The new information on how cash flows are realised may, however, indicate that the business model, and thus the measurement method changes for newly acquired or newly originated financial assets.

At BCR 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 or tax environment, major internal reorganisation or a business combination, severe liquidity crisis, etc.) are considered as not contradicting the held to collect contractual cash flows business model.

Other kinds of sales carried out in the 'held to collect' business model are assessed retrospectively, and if they exceed certain quantitative thresholds, or whenever it is considered necessary with regard to new expectations, BCR Group performs a prospective test.

If the outcome was that the carrying amount of assets expected to be sold over the expected life of the current business model portfolio, for reasons other than the cases above, exceeds 10% of the carrying amount of the portfolio, any new acquisitions or originations of assets would be classified in a different business model.

(3) 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 47 Fair value of financial assets and liabilities.

2. Accounting policies *(continued)*

2.2. Significant accounting judgments and estimates *(continued)*

(4) Impairment of financial instruments

The expected credit loss impairment model is inherently based on judgement since it requires assessment of significant increases in credit risk and measurement of expected credit losses without providing detailed guidance. In respect of significant increases in credit risk, BCR Group has determined specific assessment rules consisting of qualitative information and quantitative thresholds. Another area of complexity relates to establishing groups of similar assets when credit risk deterioration has to be assessed on a collective basis before specific information is available at individual instrument level. Measurement of expected credit losses involves complex models relying on historical statistics of probabilities of default and loss rates in case of defaults, their extrapolations in case of insufficient observations, individual estimates of credit-adjusted cash flows and probabilities of various scenarios including forward-looking information. In addition, the life of the instruments has to be modelled in respect of prepayment possibilities and in respect of behavioural life of revolving credit facilities.

Under the IAS 39 incurred loss impairment model used for the comparative period, BCR Group reviewed its financial assets not measured at fair value through profit or loss at each balance sheet date to assess whether an impairment loss should be recorded in the statement of income. In particular, this involved determining whether there is objective evidence of impairment as a result of a loss event occurring after initial recognition and estimating the amount and timing of future cash flows when determining an impairment loss.

The impairment loss on loans and advances is disclosed in more detail in Note 46.5.

(5) 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. Assumptions, estimates and sensitivities used for the defined benefit obligation calculations as well as related amounts are disclosed in Note 37 Provisions.

(6) 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 bank 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. 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 34 Investments in subsidiaries and other assets.

(7) 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 45.2 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 litigation) and the loss probability.
Please see further details on the calculation, including the parameters used, in Note 37 provisions.

2. Accounting policies *(continued)*

2.2. Significant accounting judgments and estimates *(continued)*

(8) Tax asset resulting from the fiscal treatment of impairment of subsidiaries

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

The final resolution of this issue is subject of the ongoing litigation with the Romanian Tax Authority. Hence, the fiscal treatment of the impairment expenses for the subsidiaries recorded during the period 2012 – 2015 is subject to inherent uncertainty but the Bank maintained the uncertain tax asset recognized in relation to them based on the expert assessment according to which the Bank has more chances to win the case against the tax authorities than not.

Please see further details on the amounts in Note 13 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) IFRS 9 Financial Instruments

As of 1 January 2018, BCR and BCR Group has adopted IFRS 9 'Financial Instruments' as issued by the IASB in July 2014. This resulted in changes in accounting policies for classification and measurement of financial assets and financial liabilities, as well as for impairment of financial assets.

IFRS 9 also significantly amends IFRS 7 'Financial Instruments: Disclosures' due to which disclosures of information on financial instruments have been adapted to the new requirements.

As permitted by the transitional provisions of IFRS 9, BCR Group elected not to restate comparative amounts for the previous financial year 2017. As a result, the comparative period columns in the 2018 financial statements reflect the structure used in 2017 financial statements.

Also, the comparative period disclosures in the notes are based on the original classification and measurement requirements of IAS 39 (as superseded by IFRS 9) and IFRS 7 (before the consequential amendments resulting from IFRS 9).

The financial impact of IFRS 9 adoption is detailed below. The tables make use of the following acronyms:

AC – amortised cost
AFS – available for sale
FV – fair value
FVOCI – fair value through other comprehensive income
FVTPL – fair value through profit or loss
HTM – held-to-maturity
ECL – expected credit loss
L&R – loans and advances
SOCE – statement of changes in equity
OCI – other comprehensive income

2. Accounting policies *(continued)*

2.3. Summary of significant accounting policies *(continued)*

i. Classification and measurement of financial instruments

The table below presents changes between measurement categories and carrying amounts of financial assets and financial liabilities under IAS 39 and IFRS 9 as at 1 January 2018. To illustrate the transition impact, the effects are disclosed in respect of original balance sheet positions reflecting IAS 39 requirements.

Original measurement categories in accordance with IAS 39 and new measurement categories under IFRS 9 — **Group**

in RON thousands	Comments	Portfolio	Measurement method	New classification under IFRS 9	Original carrying amount under IAS39	New carrying amount under IFRS9	Effect of changes in accounting	Thereof remeasurement	Thereof ECL
Financial assets									
Cash and cash balances at central banks	a	Amortised cost	AC	Amortised cost	11,369,344	11,367,313	(2,031)		(2,031)
Derivatives		Held-for-trading	FVTPL	Held-for-trading (FVTPL)	41,449	41,449	-		-
Other trading assets		Held-for-trading	FVTPL	Held-for-trading (FVTPL)	63,245	63,245	-		-
Loans and advances to credit institutions	b	Loans and advances	AC	Amortised cost	2,215,113	2,198,897	(16,216)		(16,216)
Loans and recivables to customers	c	Loans and advances	AC	Amortised cost	33,469,878	33,422,884	(46,994)		(46,994)
				Mandatorily at FVTPL	21,005	20,609	(396)	(396)	-
Financial assets - available for sale (Debt instruments)	d	AFS	FVTOCI	Amortised cost	1,067,092	1,076,922	9,830	12,043	(2,213)
				FVTOCI	5,290,435	5,290,435	-	2,683	(2,683)
Financial assets - available for sale (Equity instruments)	d	AFS	FVTOCI	FVTPL	21,663	21,663	-	-	-
Financial assets - available for sale (Equity instruments)		AFS	FVTOCI	FVTOCI	220,760	220,760	-	-	-
Financial assets - held to maturity	d	Held-to-maturity	AC	Amortised cost	14,756,894	14,754,109	(2,785)		(2,785)
Financial assets - at fair value through profit or loss	d	Government bonds and treasury bills	FVTPL	Amortised cost	15,131	14,982	(149)	50	(199)
Total financial assets					**68,552,009**	**68,493,268**	**(58,741)**	**14,380**	**(73,121)**
Financial liabilities									
Derivatives		Held-for-trading	FVTPL	Held-for-trading (FVTPL)	44,661	44,661	-	-	-
Financial liabilities - measured at amortised cost	e	AC	AC	Amortised cost	62,007,067	62,007,067	-	-	-
Total financial liabilities					**62,051,728**	**62,051,728**	**-**	**-**	**-**

Note: In 2017, the loans to customers included trade and other receivables and finance lease receivables.

2. Accounting policies *(continued)*

2.3. Summary of significant accounting policies *(continued)*

Original measurement categories in accordance with IAS 39 and new measurement categories under IFRS 9 — **Bank**

in RON thousands	Comments	Portfolio	Measurement method	New classification under IFRS 9	Original carrying amount under IAS39	New carrying amount under IFRS9	Effect of changes in accounting policies	Thereof remeasurement	Thereof ECL
Financial assets									
Cash and cash balances at central banks	a	Amortised cost	AC	Amortised cost	11,245,387	11,244,649	(738)	-	(738)
Derivatives		Held-for-trading	FVTPL	Held-for-trading (FVTPL)	41,449	41,449	-	-	-
Other trading assets		Held-for-trading	FVTPL	Held-for-trading (FVTPL)	63,245	63,245	-	-	-
Loans and advances to credit institutions	b	Loans and advances	AC	Amortised cost	2,420,035	2,403,874	(16,161)	-	(16,161)
Loans and recivables to customers	c	Loans and advances	AC	Amortised cost	31,999,300	31,950,672	(48,628)	-	(48,628)
				Mandatorily at FVTPL	21,005	20,609	(396)	(396)	-
Financial assets - available for sale (Debt instruments)	d	AFS	FVTOCI	Amortised cost	642,028	651,434	9,406	11,618	(2,213)
				FVTOCI	5,262,773	5,262,773	-	1,450	(1,450)
Financial assets - available for sale (Equity instruments)	d	AFS	FVTOCI	FVTPL	21,430	21,430	-	-	-
Financial assets - available for sale (Equity instruments)	d	AFS	FVTOCI	FVTOCI	220,760	220,760	-	-	-
Financial assets - held to maturity	d	Held-to-maturity	AC	Amortised cost	13,375,729	13,375,453	(276)	-	(276)
Financial assets - at fair value through profit or loss	d	Government bonds and treasury bills	FVTPL	Amortised cost	15,131	14,982	(149)	50	(199)
Total financial assets					**65,328,274**	**65,271,330**	**(56,942)**	**12,722**	**(69,665)**
Financial liabilities									
Derivatives		Held-for-trading	FVTPL	Held-for-trading (FVTPL)	44,661	44,661	-	-	-
Financial liabilities - measured at amortised cost	e	AC	AC	Amortised cost	58,920,983	58,920,983	-	-	
Total financial liabilities					**58,965,644**	**58,965,644**	**-**	**-**	**-**

Note: In 2017, the loans to customers included trade and other receivables.

(a) Upon IFRS 9 transition the expected credit loss impact was calculated in amount of RON 2,031 thousand at BCR Group level, whilst at individual level the ECL impact was in amount of RON 738 thousands.

(b) The line 'Loans and advances to credit institutions' was affected by higher ECL upon transition in amount of RON 16,216 thousand at consolidated level, whilst at individual level the ECL impact was 16,161 thousand.

(c) The line 'Mandatorily at FVTPL' includes loans to customers reclassified due to the result of business model assessment. More details can be found in the comment (d) to table ii. and table iii.

(d) The original carrying amount under IAS 39 is adjusted by RON 7,880 thousand at consolidated level and 4,138 thousand at Bank level in respect of debt securities compared to the 2017 financial statements due to re-measurement (ECL) upon transition.

(e) The original carrying amount under IAS 39 in the line 'Amortised cost' that captures financial liabilities that continue to be measured at amortised cost contains:

- deposits from customers with a carrying amount of RON 52,496,062 thousand at Group level and RON 49,885,158 thousands at Bank level;
- deposits from banks and borrowings with a carrying amount of RON 7,826,190 thousands at Group level and RON 7,389,633 thousands at Bank level;
- debt securities issued with a carrying amount of RON 539,648 thousands both at individual and consolidated level;
- other financial liabilities with a carrying amount of RON 1,145,167 thousands at Group level and RON 1,106,544 thousands at Bank level.

2. Accounting policies *(continued)*

2.3. Summary of significant accounting policies *(continued)*

ii. Reconciliation of carrying amounts of financial assets based on measurement categories

Financial assets								Group
Measurement category in RON thousands	Comments	IAS39 carrying amount as of 31.12.2017	Reclassifications	Remeasurement	IFRS9 Carrying amount as of 01.01.2018	Retained earnings effects: ECL	Retained earnings effects: Other RE effects	OCI effects
Amortised cost	a	**61,832,234**	-	-	61,832,234	-	-	
from IAS39 FVTOCI (AFS)	b	-	1,067,092	9,830	1,076,922	(2,213)	-	12,043
from IAS39 FVTPL	c	-	15,131	(149)	14,982	(199)	50	-
from IAS 39 AC (L&R, HTM) (impairment remeasurement)		-	-	(68,026)	(68,026)	(68,026)	-	-
to IFRS 9 Mandatorily at FVTPL (IAS 39: L&R)	d	-	(21,005)	-	(21,005)	-	-	-
Amortised cost balances, reclassification and remeasurement at 01.01.2018	**e**	**61,832,234**	**1,061,218**	**(58,345)**	**62,835,107**	**(70,438)**	**50**	**12,043**
Fair value through other comprehensive income		**6,599,950**	-	-	6,599,950	-	-	-
Fair value through other comprehensive income - debt instruments		6,357,527	-	-	6,357,527	-	-	-
from IAS39 AFS (impairment remeasurement)		-	-	-	-	(2,683)	-	2,683
to IFRS 9 AC (IAS 39: AFS)	b	-	(1,067,092)	-	(1,067,092)	-	-	-
Fair value through other comprehensive income - equity instruments		242,423	-	-	242,423	-	-	-
to IFRS 9 FVTPL (IAS 39: AFS)		-	(21,663)	-	(21,663)	-	(9,336)	9,336
Subtotal change to Fair value through other comprehensive income - equity instruments		-	(21,663)	-	(21,663)	-		
Fair value through other comprehensive income balances, reclassification and remeasurement at 01.01.2018		**6,599,950**	**(1,088,755)**	**-**	**5,511,195**	**(2,683)**	**(9,336)**	**12,019**
Fair value through Profit or Loss	g	**119,825**	-	-	119,825	-		-
from IAS39 AC (L&R, IFRS 9: Mandatorily at FVTPL)	d	-	21,005	(396)	20,609	-	(396)	-
from IAS39 FVTOCI (Equity instruments: AFS)	f	-	21,663	-	21,663	-	-	-
to IFRS 9 FVTOCI (IAS 39, Debt instruments: FVTPL)	c	-	(15,131)	-	(15,131)	-	-	-
Fair value through Profit or Loss balances, reclassification and remeasurement at 01.01.2018	**h**	**119,825**	**27,537**	**(396)**	**146,966**	**-**	**(396)**	**-**
Total Financial balances, reclassification and remeasurement at 01.01.2018		**68,552,009**	**-**	**(58,741)**	**68,493,268**	**(73,121)**	**(9,682)**	**24,062**
Provision for off Balance sheet items						**11,909**		
Tax effect						**(688)**		**(3,652)**
Total IFRS 9 effect						**(61,900)**	**(9,682)**	**20,410**

Reconciliation with the effect of changes in accounting policies

						Group
in RON thousands	**ECL**	**Other Retained Earning effects**	**Total Retained earnings**	**Other comprehensive**	**Deferred tax**	**Total Changes**
	(61,900)	(9,682)	**(71,582)**	24,062	(3,652)	(51,172)
Total changes as per SOCE			**(71,582)**	**24,062**	**(3,652)**	**(51,172)**

2. Accounting policies *(continued)*

2.3. Summary of significant accounting policies *(continued)*

Financial assets — Bank

Measurement category / in RON thousands	Comments	IAS39 carrying amount as of 31.12.2017	Reclassifications	Remeasurement	IFRS9 Carrying amount as of 01.01.2018	Retained earnings effects: ECL	Retained earnings effects: Other RE effects	OCI effects
Amortised cost	**a**	**59,061,458**	-	-	59,061,458	-	-	-
from IAS39 FVTOCI (AFS)	b	-	642,028	9,406	651,434	(2,213)	-	11,618
from IAS39 FVTPL	c	-	15,131	(149)	14,982	(199)	50	-
from IAS 39 AC (L&R, HTM) (impairment remeasurement)		-	-	(65,803)	(65,803)	(65,803)	-	-
to IFRS 9 Mandatorily at FVTPL (IAS 39: L&R)	d	-	(21,005)	-	(21,005)	-	-	-
Amortised cost balances, reclassification and remeasurement at 01.01.2018	**e**	**59,061,458**	**636,154**	**(56,546)**	**59,641,066**	**(68,215)**	**50**	**11,618**
Fair value through other comprehensive income		**6,146,991**	-	-	6,146,991	-	-	-
Fair value through other comprehensive income - debt instruments		5,904,801	-	-	5,904,801	-	-	-
from IAS39 AFS (impairment remeasurement)		-	-	-	-	(1,450)	-	1,450
to IFRS 9 AC (IAS 39: AFS)	b	-	(642,028)	-	(642,028)	-	-	-
Fair value through other comprehensive income - equity instruments		242,190	-	-	242,190	-	-	-
to IFRS 9 FVTPL (IAS 39: AFS)		-	(21,430)	-	(21,430)		(9,336)	9,336
Total change to Fair value through other comprehensive income		-	(663,458)	-	(663,458)	(1,450)	(9,336)	10,786
Fair value through other comprehensive income balances, reclassification and remeasurement at 01.01.2018		**6,146,991**	**(663,458)**	**-**	**5,483,533**	**(1,450)**	**(9,336)**	**10,786**
Fair value through Profit or Loss	**g**	**119,825**	-	-	119,825	-	-	-
from IAS39 AC (L&R, IFRS 9: Mandatorily at FVTPL)	d	-	21,005	(396)	20,609	-	(396)	-
from IAS39 FVTOCI (Equity instruments: AFS)	f	-	21,430	-	21,430	-	-	-
to IFRS 9 FVTOCI (IAS 39, Debt instruments: FVTPL)	c	-	(15,131)	-	(15,131)	-	-	-
Fair value through Profit or Loss balances, reclassification and remeasurement at 01.01.2018	**h**	**119,825**	**27,304**	**(396)**	**146,732**	**-**	**(396)**	**-**
Total Financial balances, reclassification and remeasurement at 01.01.2018		**65,328,274**	**-**	**(56,942)**	**65,271,331**	**(69,665)**	**(9,682)**	**22,404**
Provision for off Balance sheet items						**11,922**	**-**	**-**
Tax effect						**59**	**0**	**(3,585)**
Total IFRS 9 effect						**(57,684)**	**(9,682)**	**18,819**

Reconciliation with the effect of changes in accounting policies

Bank

in RON thousands	ECL	Other Retained Earning effects	Total Retained earnings	Other comprehensive income	Deferred tax	Total Changes
	(57,684)	(9,682)	**(67,366)**	22,404	(3,585)	(48,547)
Total changes as per SOCE			**(67,366)**	**22,404**	**(3,585)**	**(48,547)**

Note: Re-measurement includes effects of both revaluation and impairment changes.

(a) The amount includes IAS 39 balance sheet line items with following carrying amounts in RON thousand:

- cash and cash balances: 11,369,344 at Group level and 11,245,387 at Bank level;
- loans and advances to credit institutions: 2,215,113 at Group level and 2,420,035 at Bank level;
- loans and advances to customers: 33,490,883 at Group level and 32,020,305 at Bank level (including finance lease receivables and trade and other receivables);
- financial assets – held to maturity: 14,756,894 at Group level and 13,375,729 at Bank level.

2. Accounting policies *(continued)*

2.3. Summary of significant accounting policies *(continued)*

(b) Debt securities that were classified as available for sale and measured at FVOCI under IAS 39 and that are part of the portfolios connected to asset and liability management activities were reclassified to the amortised cost measurement category under IFRS 9 due to the business model of holding the assets to collect contractual cash flows. The reason of changing the business model was due to infrequent sales and usually held until maturity of these types of securities.

(c) Debt securities that were measured at FVTPL under IAS 39 were reclassified to the amortised cost measurement category under IFRS 9 due to the business model of holding the assets to collect contractual cash flows.

(d) The reclassification relates largely to loans to customers that do not have contractual cash flows that are solely payments of principal and interest (SPPI) and thus have to be measured at FVPL, as described in chapter 2.2. Significant accounting judgments and estimates.

(e) The IFRS 9 carrying amount as at 1 January 2018 includes IFRS 9 balance sheet line items with following carrying amounts in RON thousand:

- cash and cash balances 11,367,313 at Group level and 11,244,649 at Bank level;
- financial assets at amortised cost:
    - debt securities: 15,846,013 at Group level and 14,041,869 at Bank level;
    - loans and advance to banks: 2,198,897 at Group level and 2,403,874 at Bank level
    - loans and advances to customers: 33,422,884 at Group level and 31,950,672 at Bank level

(f) The reclassification from the available for sale category under IAS 39 to the fair value through profit or loss category under IFRS 9 relates to those investments in equity instruments that are not held for trading and that were not designated as measured at FVOCI upon the transition to IFRS 9.

(g) The amount includes IAS 39 balance sheet line items with following carrying amounts in RON thousands also at Group and individual levels:

- derivatives – held for trading: 41,449.
- other trading assets: 63,245; and
- financial assets - at fair value through profit or loss: 15,131.

(h) The IFRS 9 carrying amount as at 1 January 2018 includes IFRS 9 balance sheet line items with following carrying amounts in RON thousands:

- derivatives – held for trading: 41,449 at Group and also at Bank level ;
- other trading assets: 63,245 at Group and also at Bank level;
- non-trading financial assets at FVPL:
    - ➢ equity instruments: 21,663 at Group level and 21,430 at Bank level;
    - ➢ loans and advances to customers mandatorily at FVPL: 20,609 at Group and also at Bank level.

iii. Reconciliation of impairment allowances

The following table reconciles the amounts of loss allowances as at 31 December 2017 based on the IAS 39 incurred loss impairment model with the amounts as at 1 January 2018 subject to the IFRS 9 expected credit loss impairment model:

Reconciliation impairment allowances				Group
in RON thousands	31.12.2017 (IAS39/IAS37)	Reclassifications +/-	Remeasurement +/-	01.01.2018 (IFRS9)
Financial assets at AC	(2,737,384)	264,761	(71,126)	(2,543,749)
Debt instruments at FVTOCI	-	-	(2,683)	(2,683)
Off balance-sheet exposures (loan commitments and guarantees given)	(351,257)	7	11,909	(339,341)
Total	**(3,088,641)**	**264,768**	**(61,900)**	**(2,885,773)**

Reconciliation impairment allowances				Bank
in RON thousands	31.12.2017 (IAS39/IAS37)	Reclassifications +/-	Remeasurement +/-	01.01.2018 (IFRS9)
Financial assets at AC	(2,573,576)	274,985	(68,157)	(2,366,748)
Debt instruments at FVTOCI	-	-	(1,450)	(1,450)
Off balance-sheet exposures (loan commitments and guarantees given)	(351,158)	7	11,922	(339,229)
Total	**(2,924,734)**	**274,992**	**(57,685)**	**(2,707,427)**

2. Accounting policies *(continued)*

2.3. Summary of significant accounting policies *(continued)*

The column 'Reclassifications' relates to changes in impairment allowances due to differences in the scope of requirements between IFRS 9 and IAS 39. The decrease in impairment due to reclassifications amounting to RON 275 million for BCR Bank and RON 265 million for BCR Group relates mainly to:

- an increase of RON 282 million representing additional impairment allowances against credit-impaired loans ('Stage 3') in respect of interest receivables accruing after default not considering under IAS39 up to 31 December 2017, but were reintegrated in the on-balance gross carrying amounts of the related assets as of 1 January 2018 under IFRS9.
- a decrease of RON 499 million related to impairments of loans that were retrospectively identified as originated credit-impaired upon transition to IFRS 9. These impairments were included in the gross carrying amounts of the related assets as of 1 January 2018.

The column 'Remeasurement' relates to changes in impairment allowances that were (under IAS 39 for financial assets and under IAS 37 for off-balance sheet credit risk bearing exposures) and continue to stay (under IFRS 9) in the impairment calculation scope. In this respect:

- the line 'Debt instruments at AC' captures differences in loss allowances for debt instruments measured at amortised cost under IFRS 9 that were previously classified as loans and advances (other than trade and other receivables) and held-to-maturity in accordance with IAS 39;
- the line 'Debt instruments at FVOCI' reconciles the loss allowances for debt instruments measured at FVOCI under IFRS 9 that were classified as held-to-maturity.

As a result, the impairment remeasurements had a negative impact on the equity amounting to RON 57.7 million at individual level and RON 61.9 million at consolidated level. Overall, the re-classifications and remeasurements impairment effects driven by the application of IFRS 9 decreased the group equity by RON 51.2 million and the Bank equity by RON 48.5 million.

iv. Deferred tax effects upon transition to IFRS 9

The following table illustrates the effects of IFRS 9 on the carrying amount of deferred tax assets and deferred tax liabilities:

Deferred Tax Assets / Deferred Tax Liabilities				Group
in RON thousands	**Closing balance as at 31.12.2017 (IAS39)**	**Opening balance as at 01.01.2018 (IFRS9)**	**Retained earnings effects +/-**	**OCI effects +/-**
Changes in deferred tax assets	168,778	162,452	(2,654)	(3,671)
Changes in deferred tax liabilities	(25)	(7)	-	19
Net changes in deferred tax	**168,753**	**162,445**	**(2,654)**	**(3,652)**

Deferred Tax Assets / Deferred Tax Liabilities				Bank
in RON thousands	**Closing balance as at 31.12.2017 (IAS39)**	**Opening balance as at 01.01.2018 (IFRS9)**	**Retained earnings effects +/-**	**OCI effects +/-**
Changes in deferred tax assets	157,361	151,869	(1,908)	(3,585)

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

(2) Financial instruments

A financial instrument is any contract giving rise to a financial asset of one party and a financial liability or equity instrument of another party. In accordance with IFRS 9 (as well as IAS 39), all financial assets and liabilities – which also include derivative financial instruments – have to be recognised on the balance sheet and measured in accordance with their assigned categories.

(3) Initial recognition and measurement

i. Initial recognition

Financial instruments are initially recognised when BCR Group becomes a party to the contractual provisions of the instrument. Regular way (spot) purchases and sales of financial assets are recognised at the settlement date, which is the date that an asset is delivered.

ii. Initial measurement

Financial instruments are measured initially at their fair value including transaction costs (except for financial instruments at fair value through profit or loss, for which transaction costs are recognised directly in profit or loss). In most cases, the fair value at initial recognition equals the transaction price, i.e. the price transferred to originate or acquire a financial asset or the price received to issue or incur a financial liability.

(4) Classification and subsequent measurement of financial assets under IFRS 9

In accordance with IFRS 9, the classification and subsequent measurement of financial assets depend on the following two criteria:

- The business model for managing the financial assets – the assessment is focused on whether the financial asset is part of a portfolio in which the assets are held in order to collect contractual cash flows, to both collect the contractual cash flows and sell the assets or they are held in other business models.
- The cash flow characteristics of the financial assets – the assessment is focused on whether 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.

i. Financial assets at amortised cost

Financial assets are measured at amortised cost if they are held in a business model whose objective is to collect contractual cash flows, and their contractual cash flows are SPPI.

On the balance sheet, these assets are carried at amortised cost, i.e. the gross carrying amount net of the credit loss allowance. They are presented under the line 'Financial assets at amortised cost', 'Trade and other receivables', 'Finance lease receivables' and 'Cash and cash balances'. Cash balances include only claims (deposits) against central banks and credit institutions that are repayable on demand. Repayable on demand means that they may be withdrawn at any time or with a term of notice of only one business day or 24 hours. Mandatory minimum reserves are also shown under this item.

Interest income on these assets is calculated by effective interest method and is included under the line 'Net interest income' in the statement of income. Impairment gains or losses are included in the line 'Impairment result from financial instruments'.

At BCR Group, financial assets at amortised cost constitute the largest measurement category, which includes the vast majority of loan business to customers (except for certain loans measured at fair value through profit or loss), interbank lending business (including reverse repo transactions), deposits with central banks, amounts in the course of settlement, trade and other receivables, finance lease receivables.

The main items under trade and other receivables" position are represented by factoring assets. Recourse factoring is initially recognized against the Seller at the date when the Bank becomes contractually bound to the terms and conditions of the underlying factoring contract with the seller(typically, the sign-up date of that underlying factoring contract).

In case of non-recourse factoring, the related assets are recognized against the underlying buyers at the dates when the Bank acquires from the seller the right to collect from the underlying buyers the contractual cash-flows of the related underlying invoices (typically, the date of a down-payment required by the seller).

2. Accounting policies *(continued)*

2.3. Summary of significant accounting policies *(continued)*

Regarding the timing and amount of revenue recognition, the IFRS 15 requirements are applied in case of all fees related to non-recourse factoring and in case of the fees derived from recourse factoring which are not part of the effective interest rate.

Contractual modifications and related de-recognition triggers are deemed not applicable in case of factoring assets.

Investments in debt securities measured at amortised cost may be acquired with different business objectives (such as fulfilling internal/external liquidity risk requirements and efficient placement of the structural liquidity surplus, strategic positions decided by the board of directors, initiation and fostering of client relationships, substitution of loan business or other yield enhancement activities). Their common attribute is that significant and frequent sales of such securities are not expected.

The EIR is used for recognition of interest income and interest expense. Interest income is calculated in the following way:

- EIR applied to the gross carrying amount for financial assets that are not credit-impaired (Stage 1 and Stage 2, see part 'Impairment of financial instruments');
- EIR applied to the amortised cost for financial assets that are credit-impaired (Stage 3, see 'Impairment of financial instruments'); and
- credit-adjusted EIR applied to the amortised cost for POCI financial assets.

ii. Financial assets at fair value through other comprehensive income

Debt instrument financial assets are measured at fair value through other comprehensive income (FVOCI) if their contractual cash flows are SPPI-compliant and they are held within a business model whose objective is achieved by both to collect contractual cash flows and sell the assets. On the balance sheet, they are included as 'Debt securities' under the line 'Financial asset at fair value through other comprehensive income'.

Interest income on these assets is calculated using the effective interest method and is included under the line 'Net interest income' in the statement of income. Impairment gains and losses are recognised in profit or loss in the line 'Impairment result from financial instruments'. As a result, the measurement impact recognised in profit or loss is the same as for financial assets measured at amortised cost.

The difference between the fair value at which the assets are carried in the balance sheet and the amortised cost component is recognised as accumulated OCI in equity specifically under 'Fair value reserve' in the statement of changes in equity. The change for the period is reported as OCI in the statement of comprehensive income in the line 'Debt instruments at fair value through other comprehensive income'.

The debt instruments belonging to this category are subject to the impairment requirements of the standard (IFRS 9.5.5.1) and their respective credit loss allowances are calculated based on the one-year or lifetime expected losses, depending on the particular stage the asset is assigned to. However, the loss allowance is recognised in other comprehensive income and it does not reduce the carrying amount of the financial asset on the balance sheet. The amount of credit loss allowance is recognized in the income statement under the respective positions dedicated to the particular type of instrument. The amount accumulated under the CLA position within OCI determines an increase in the OCI reserve due to the fact that it represents a counter-booking to the amounts already presented in the Income statement. The impairment booking entry between the Income statement and OCI does not constitute reclassification ('recycling') from OCI to profit or loss.

When the debt financial asset is derecognised, the amount previously accumulated in OCI is reclassified to profit or loss and reported under the line 'Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss'.

Debt securities measured at FVOCI are part of 'held to collect and sell' business models. Similarly to debt instruments, assets measured at amortised cost, they relate to various business objectives such as fulfilling internal/external liquidity risk requirements and efficient placement of the structural liquidity surplus, strategic positions decided by the board of directors, initiation and fostering of client relationships, substitution of loan business or other yield-enhancement activities.

The common attribute for investments in debt instruments at FVOCI is that an active yield optimisation via sales is integral to achieving the objectives. The sales are carried out in order to optimise the liquidity position or to realise the fair value gains or losses. As a result, the business objectives are achieved through both collecting contractual cash flows and sales of the securities.

For certain investments in equity instruments that are not held for trading, BCR Group makes use of the option to measure them at FVOCI. This election is only applied at initial recognition, is irrevocable and is considered only for strategic, significant banking business relationship investments. The fair value gains or losses for the period are reported as OCI in the line 'Fair value changes of equity instruments' of the statement of comprehensive income.

2. Accounting policies *(continued)*

2.3. Summary of significant accounting policies *(continued)*

The cumulative gains or losses are included under 'Fair value reserve' in the statement of changes in equity. The amount recognised in OCI is never reclassified to profit or loss. Dividends received on these investments are reported under the line 'Dividend income' of the statement of income. On the balance sheet, financial assets measured at fair value through OCI are included as 'Equity instruments' under the line 'Financial asset at fair value through other comprehensive income'.

iii. Financial assets at fair value through profit or loss

There are various reasons for assigning the fair value through profit or loss (FVPL) measurement category to financial assets:

Financial assets whose contractual cash flows are not considered as SPPI are automatically measured at FVPL. In the business of BCR Group, this concerns certain loans to customers and equity instruments.

Other source of FVPL measurement relates to financial assets that are part of residual business models, i.e. they are neither held to collect contractual cash flows nor held to either collect contractual cash flows or sell the assets. These financial assets are generally expected to be sold before their maturity or they are managed and their performance is evaluated on a fair value basis.

On the balance sheet, debt instrument financial assets measured at FVPL are presented as 'Financial assets held for trading', sub-items 'Other trading assets'. Financial assets are mandatorily measured at fair value through profit or loss either because their contractual cash flows are not SPPI or they are held as part of residual business models that are other than held for trading.

In the statement of income, the profit or loss effects of financial assets measured at FVPL are split into interest income or dividend income and fair value gains and losses. The dividend income on equity instruments is presented in the line 'Dividend income'.

The fair value gains or losses are calculated net of the interest or dividend income, and they also include transaction costs and origination fees. They are reported in the line 'Net trading result' for financial assets held for trading and in the line 'Gains/losses from financial instruments measured at fair value through profit or loss' in case of non-trading financial assets at FVPL.

(5) Classification and subsequent measurement of financial liabilities under IFRS 9

Financial liabilities are classified as measured at amortised cost unless they are measured at fair value through profit or loss.

i. Financial liabilities at amortised cost

For presentation on the balance sheet, the line item 'Financial liabilities measured at amortised cost' is used. The liabilities are further broken down into 'Deposits from banks', 'Deposits from customers', 'Debt securities issued' and 'Other financial liabilities'.

Interest expenses incurred are reported in the line item 'Net interest income' in the statement of income. Gains and losses from derecognition (mainly repurchase) are reported under the line item 'Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss'.

ii. Financial liabilities at fair value through profit or loss

Financial liabilities at FVPL consist of financial liabilities held for trading and financial liabilities designated at FVPL. The Group did not designate any financial liabilities at fair value through profit or loss.

The gains or losses on financial liabilities held for trading are reported in the line 'Net trading result' in the statement of income.

(6) Classification, subsequent measurement and balance sheet line items of financial instruments under IAS 39

As regards the comparative period information on financial instruments in accordance with IAS 39, BCR Group uses the following categories of financial instruments:

- financial assets or financial liabilities at fair value through profit or loss;
- available-for-sale financial assets;

2. Accounting policies *(continued)*

2.3. Summary of significant accounting policies *(continued)*

- held-to-maturity investments;
- loans and advances; and
- financial liabilities measured at amortised cost.

i. Cash and cash balances in the comparative period

Cash balances include only claims (deposits) against central banks and credit institutions that are repayable on demand. Repayable on demand means that they may be withdrawn at any time or with a term of notice of only one business day or 24 hours. Mandatory minimum reserves are also shown under this item. The measurement basis is at amortised cost.

ii. Derivative financial instruments in the comparative period

Please refer to the part 'Derivative financial instruments' below.

iii. Financial assets and financial liabilities – held for trading in the comparative period

Financial assets and financial liabilities – held for trading comprise derivatives and other trading assets and liabilities. The treatment of derivatives – held for trading is discussed in the part Derivative financial instruments below.

Other trading assets and liabilities are non-derivative instruments. They include debt securities as well as equity instruments acquired or issued principally for the purpose of selling or repurchasing in the near term. In the balance sheet, they are presented as 'Other trading assets' or 'Other trading liabilities' under the heading 'Financial assets/financial liabilities – held for trading'.

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'.

iv. Financial assets or financial liabilities designated at fair value through profit or loss in the comparative period

Financial assets or financial liabilities classified in this category under IAS 39 are those that were designated by management on initial recognition.

Financial assets designated at fair value through profit or loss are recorded on the balance sheet at fair value and presented under the line item 'Financial assets at fair value through profit or loss', with changes in fair value recognised in the statement of income under the line item 'Gains/losses from financial assets and liabilities measured at fair value through profit or loss'. Interest earned on debt instruments is reported under the line item 'Net interest income'. Dividend income on equity instruments is shown under the line item 'Dividend income'.

v. Financial assets available for sale in the comparative period

Available-for-sale financial assets include debt and equity securities as well as other interests in entities with lower than significant influence. Equity investments classified as available for sale are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in market conditions.

Available-for-sale financial assets are measured at fair value. On the balance sheet, available-for-sale financial assets are disclosed under the line item 'Financial assets available for sale'.

Unrealised gains and losses are recognised in OCI and reported in the 'Available for sale reserve' until the financial asset is disposed of or impaired. If available-for-sale assets are disposed of or impaired, the cumulative gain or loss previously recognised in OCI is reclassified to profit or loss and reported in the line item 'Gains/losses on financial assets and liabilities not measured at fair value through profit or loss, net' in the

2. Accounting policies *(continued)*

2.3. Summary of significant accounting policies *(continued)*

case of sale or in the line item 'Net impairment loss on financial instruments' in the case of impairment.

Interest income on available-for-sale financial assets is reported under the line item 'Net interest income'. Dividend income is reported under the line item 'Dividend income'.

vi. Financial assets held to maturity in the comparative period

Under IAS 39, non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity and reported on the balance sheet as 'Financial assets held to maturity' if BCR Group has the intention and ability to hold them until maturity. After initial recognition, held-to-maturity financial assets are measured at amortised cost. Amortised cost is calculated by taking into account any discount, premium and/or transaction costs that are an integral part of the effective interest rate.

Interest earned on financial assets held to maturity is reported in the statement of income under the line item 'Net interest income'. Losses arising from impairment of such financial assets are presented as 'Net impairment loss on financial assets'.

Realised gains or losses from selling are recognised in the statement of income under the line item 'Gains/losses on financial assets and liabilities not measured at fair value through profit or loss, net'.

vii. Loans and advances in the comparative period

The balance sheet line item 'Loans and advances to credit institutions' includes financial instruments that are allocated to the IAS 39 financial instrument category loans and advances with a contractual maturity of more than 24 hours. The balance sheet line item 'Loans and advances to customers' includes financial instruments that are allocated to the financial instrument category loans and advances regardless of their contractual maturity. Furthermore, finance lease receivables that are accounted for using IAS 17 are presented under these balance sheet line items.

After initial recognition, loans and advances are measured at amortised cost. Finance lease receivables are subsequently measured as specified in the chapter 'Leasing'. Interest income earned is included under the line item 'Net interest income' in the statement of income.

Impairment losses arising from loans and advances are recognised in the statement of income under the line item 'Net impairment loss on financial assets'.

viii. Financial liabilities measured at amortised cost in the comparative period

Financial liabilities are measured at amortised cost unless they are measured at fair value through profit or loss.

For presentation on the balance sheet, the line item 'Financial liabilities measured at amortised cost' is used. The liabilities are further broken down by 'Deposits from banks', 'Deposits from customers', 'Debt securities issued' and 'Other financial liabilities'.

Interest expenses incurred are reported in the line item 'Net interest income' in the statement of income. Gains and losses from derecognition (mainly repurchase) of financial liabilities at amortised cost are reported under the line item 'Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net'.

(7) Impairment of financial instruments under IFRS 9

BCR Group recognises loss allowances for impairment on its debt instrument financial assets, other than those measured at FVPL, its lease receivables, and its off-balance credit risk exposures arising from financial guarantees and certain loan commitments. The impairment is based on expected credit losses whose measurement reflects:

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

2. Accounting policies *(continued)*

2.3. Summary of significant accounting policies *(continued)*

The amount of the impairment loss is recognised as a loss allowance. For the purpose of the measurement of the amount of expected credit loss and recognition of interest income, BCR Group distinguishes between three stages of impairment.

As per IFRS 9 requirements the following definitions of expected credit losses are used:

- lifetime expected credit losses - the expected credit losses that result from all possible default events over the expected life of a financial instrument.
- 12-month expected credit losses - the portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Stage 1 relates to financial instruments for which no significant increase in credit risk has been recorded since their initial recognition. The impairment is measured in the amount of the 12-month expected credit loss. Interest income is recognised by effective interest rate applied to the gross carrying amount of the financial asset.

Financial instruments in Stage 2 are subject to significant increase in credit risk since their initial recognition. The impairment is measured in the amount of the lifetime expected credit loss. Interest income is recognised by effective interest rate applied to the gross carrying amount of the financial asset.

Financial assets in Stage 3 are credit-impaired. In respect of applying the 'credit-impaired' concept of IFRS 9, BCR Group generally adopted the approach of aligning it with the regulatory concept of 'default' for lending exposures. The impairment for such financial assets is measured in the amount of lifetime expected credit loss. Interest income is recognised by EIR applied to the amortised cost (i.e. the net carrying amount) of the financial asset.

From a balance sheet perspective, interest is accrued based on the financial assets' gross carrying amount. The difference between the interest accrued on the assets and the interest income recognised is reflected through the allowance account (without impacting the impairment loss).

The loss allowances decrease the value of the assets, i.e. for financial assets measured at amortised cost, the net carrying amount of the financial asset presented on the balance sheet is the difference between the gross carrying amount and the cumulative loss allowance. However, for financial assets measured at FVOCI, the loss allowance is recognised in accumulated OCI, specifically under 'Fair value reserve' in the statement of changes in equity and it does not reduce the carrying amount of the financial asset on the balance sheet.

For financial assets that are credit-impaired at initial recognition (purchased or originated credit-impaired – POCI – financial assets) lifetime expected credit losses are initially reflected in the credit-adjusted effective interest rate. As a result, no loss allowance is recognised at inception.

Subsequently, only adverse changes in lifetime expected credit losses after the initial recognition are recognised as loss allowance, whilst favourable changes are recognised as impairment gains increasing the gross carrying amount of the POCI financial assets.

Loss allowances for loan commitments and financial guarantees are presented under the balance sheet line item 'Provisions'. Measurement of ECL for credit lines and other facilities with undrawn component is done separately for the undrawn component.

In the statement of income, impairment losses and their reversals (gains) on all categories of financial instruments are presented in the line item 'Net impairment loss on financial instruments'. Disclosures concerning impairment of financial assets are in Note 11.

(8) Impairment of financial assets and credit risk losses of contingent liabilities under IAS 39 in the comparative period

Under IAS 39 BCR Group assesses at each statement of financial position date whether there was any objective evidence that a financial asset or a group of financial assets was impaired.

A financial asset or a group of financial assets was deemed to be impaired if, and only if, there was objective evidence of impairment as a result of one or more events that had occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or the group of financial assets that could be reliably estimated.

Evidence of impairment could include indications that the borrower or a group of borrowers was experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they would enter bankruptcy or other financial reorganization and where observable data indicate that there was 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 11.

2. Accounting policies *(continued)*

2.3. Summary of significant accounting policies *(continued)*

(9) Write-offs

BCR Group writes off a financial asset or a part of it when it has no reasonable expectations of recovering the respective cash flows. When performing the write-off, the gross carrying amount of the asset is reduced simultaneously with the related loss allowance balance.

BCR Group has specified criteria for writing off the unrecoverable balances in its loan business. Write-off can result from forbearance measures whereby the bank contractually waives part of the existing balance in order to help the customers overcome financial difficulties and thus improve the prospects of recovering the remaining loan balance (normally this relates to going concern scenarios for corporate customers).

In gone concern scenarios with corporate customers, write-offs of the unrecoverable exposure parts are triggered by enforcement activities such as filing or termination of legal proceedings (bankruptcy, liquidation, court case).

Other write-off triggers may result from decisions about no enforcement due to worthlessness of the claim/collateral or generally from assessment that the receivable is economically lost.

For retail customers, the non-recoverability and the timing and amounts of write-off crystallise during the collection process when it becomes evident that the amount due cannot be collected, e.g. due to ongoing bankruptcy proceedings. Residual uncollectable balances are written off after the collection process.

(10) Derecognition of financial instruments including treatment of contractual modifications

i. Derecognition of financial assets

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

- the contractual rights to receive cash flows from the asset have expired; or
- BCR 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:
- it has transferred substantially all risks and rewards connected with ownership of the asset, or
- has neither transferred nor retained substantially all risks and rewards connected with ownership of the asset but has transferred control of the asset.

The difference between the carrying amount of the derecognised asset and the consideration received is presented in the statement of income in the line 'Gains/losses from derecognition of financial assets measured at amortised cost' or, for debt financial assets at FVOCI, in the line 'Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss'.

For financial assets measured at FVPL the derecognition gains or losses are recognised together with the measurement result in the lines 'Net trading result' or 'Gains/losses from financial instruments measured at fair value through profit or loss'.

ii. Derecognition criteria with respect to contractual modifications of financial assets

In the normal course of running its lending business and in agreement with the respective debtors, BCR Group may renegotiate or otherwise modify some terms or conditions of the underlying contracts. This can involve either market-driven commercial renegotiations or contractual changes aimed at alleviating or preventing borrower's financial difficulty.

For the purpose of capturing the economic substance and financial effect of such contractual modifications, BCR Group has developed a set of criteria to assess whether or not the modified terms are substantially different from the original terms.

While having been partly applied under IAS 39, these criteria have been further adapted to concepts brought by IFRS 9, e.g. modification of contractual cash flows.

2. Accounting policies *(continued)*

2.3. Summary of significant accounting policies *(continued)*

Substantial modifications lead to derecognition of the original financial asset and initial recognition of the modified financial asset as a new financial instrument. They include the following events:

- change of the contractual counterparty (unless this is a formal change such as changes in legal name);
- change in the currency of the contract (unless the change results from exercising an embedded option in the original contract with pre-agreed conditions of the change, or if the new currency is pegged to the original currency);
- introduction of a non-SPPI contractual feature (unless it is intended to improve recoveries from debtors by granting concessions supporting them to recover from financial difficulties); and
- removal of a non-SPPI contractual feature.

Some derecognition criteria distinguish whether contractual modifications are applied to debtors facing financial difficulties. Application of certain modifications to debtors in financial difficulties is not considered as substantial since they are aimed at improving the prospects of the bank to recover the claims by tailoring the repayment schedules to specific financial conditions of those debtors.

On the other hand, such contractual modifications applied to performing debtors may be considered as substantial enough to warrant the derecognition, as further detailed below.

From this perspective, the following criteria lead to derecognition unless they are considered as forbearance measures, they are applied to customers in default or they trigger default:

- repayment schedule changed in a way that the weighted remaining maturity of the assets is modified by more than 100% and not less than two years compared to the original asset;
- change in timing/amount of contractual cash flows resulting in the present value of the modified cash flows (discounted at pre-modification effective interest rate) being different by more than 10% of the gross carrying amount of the asset immediately before the modification (cumulative assessment considering all modifications occurring over the last twelve months); or
- commercial renegotiations initiated by a debtor seeking better terms as an alternative to re-financing while a prepayment/early termination option and a sufficiently competitive refinancing market exist . This derecognition trigger rarely applies to loan assets in Stage 2 and never in Stage 3.

If contractual modifications that qualify as forbearance measures are applied to customers in default or trigger default are so significant that they are qualitatively assessed as an extinguishment of original contractual rights, they result in derecognition. Examples of such modifications are:

- a new agreement with materially different terms signed up as part of distressed restructuring following a standstill agreement suspending the rights of the original assets;
- consolidation of multiple original loans into one with substantially different terms; or
- transformation of a revolving loan into non-revolving.

Contractual modifications leading to derecognition of the related original assets result in the initial recognition of new financial assets. If the debtor is in default or the significant modification leads to the default, then the new asset will be treated as POCI. The difference between the carrying amount of the derecognised asset and initial fair value of the new POCI asset is presented in the statement of income in the line 'Impairment result from financial instruments'.

If the debtor is not in default or the significant modification does not lead to default, the new asset recognised after derecognition of the original asset will be in Stage 1. For loans measured at amortised cost, the unamortized balance of the origination fees/transaction costs considered in the effective interest rate is presented in the line 'Net interest income' at the derecognition date.

The release of the credit loss allowance attached to the original asset at the date of that significant modification as well as the credit loss allowance recognised for the new asset are presented in the line 'Impairment result from financial instruments'.

For financial assets measured at FVPL, irrespective of whether they are in default, the derecognition gains and losses are included in the same line items of the statement of income as their measurement result, i.e. in 'Gains/losses from financial instruments measured at fair value through profit or loss'. For debt instrument assets not measured at FVPL that are subject to contractual modifications that do not result in derecognition, the gross carrying amount of the asset is adjusted against recognising a modification gain or loss in profit or loss.

2. Accounting policies *(continued)*

2.3. Summary of significant accounting policies *(continued)*

The modification gain or loss equals the difference between the gross carrying amount before the modification and the present value of the cash flows based on the modified terms discounted with the original effective interest rate.

In the statement of income, the modification gain or loss is presented in the line 'Net interest income' if the modification relates to financial assets in Stage 1. For financial assets in Stage 2 and 3 and POCI financial assets, the modification gain or loss is presented in the line 'Impairment result from financial instruments'.

iii. Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. This normally occurs when the liability is repaid or repurchased.

In the statement of income, the difference between the carrying amount of the derecognised financial liability and the consideration paid is presented in the line 'Other gains/losses from financial instruments not measured at fair value through profit or loss' (in the comparative period, 'Gains/losses on financial assets and liabilities not measured at fair value through profit or loss, net'), 'Gains/losses from financial instruments measured at fair value through profit or loss' and 'Net trading result' depending on the measurement category of the derecognised financial liability.

(11) Derivative financial instruments

Derivative financial instruments are used by BCR Group to manage exposures to interest rates, foreign currencies and other market price risks. Derivatives used by BCR Group include mainly interest rate swaps, futures, forward rate agreements, interest rate options, currency swaps and currency options as well as credit default swaps.

Derivative financial instruments are carried at fair value (dirty price) on the balance sheet. Derivatives are carried as assets if their fair value is positive and as liabilities if their fair value is negative.

Derivatives – held for trading are those that are not designated as hedging instruments for hedge accounting. They are presented in the line item 'Derivatives' under the heading 'Financial assets/Financial liabilities held for trading'. All kinds of non-hedging derivatives without regard to their internal classification, i.e. both derivatives held in the trading book and banking book, are presented in this line item.

Changes in the fair value (clean price) of derivatives – held for trading are reported in the statement of income in the line item 'Net trading result'. Interest income/expense related both to held for trading used for economic hedges and hedging derivatives is presented in the statement of income in the line item 'Other similar income' or 'Other similar expenses' under 'Net interest income'.

(12) 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.

2. Accounting policies *(continued)*

2.3. Summary of significant accounting policies *(continued)*

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'.

(13) 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'. These securities 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 "Financial assets at amortised cost", sub-item 'Loans and advances 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'.

(14) 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 34) that do not have a quoted market price in an active market are measured at cost and periodically tested for impairment.

(15) Offsetting financial instruments

Financial assets and financial liabilities are presented gross in the statement of financial position. Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy.

(16) 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 financial guarantees are measured at the higher of the amount of the loss allowance determined as expected credit loss under IFRS 9 and the amount initially recognized less any cumulative amortization recognized in line with IFRS 15.

2. Accounting policies *(continued)*

2.3. Summary of significant accounting policies *(continued)*

Any increase in the liability relating to financial guarantees is taken to the statement of comprehensive income in 'Net impairment loss from financial instruments" 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.

(17) 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 comprise both finance and operational lease.

(18) 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.

(18.1) 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.

2. Accounting policies *(continued)*

2.3. Summary of significant accounting policies *(continued)*

(19) 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.

(20) 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.

(21) 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
- Licences are amortized on the duration of the utilization.

(22) 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.

2. Accounting policies *(continued)*

2.3. Summary of significant accounting policies *(continued)*

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.

(23) 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.

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'.

(24) 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.

2. Accounting policies *(continued)*

2.3. Summary of significant accounting policies *(continued)*

(25) 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 its subsidiaries in Romania, starting in January 2018, make payments to the Romanian state's funds on behalf of its Romanian employees for contributions due to the state social insurance budget, contributions due to the single health insurance fund. Contributions are paid by the employer. All employees of the bank and its subsidiaries in Romania are legally obliged to pay the contributions defined by the Romanian state. Starting with January 2018, BCR pays the labor insurance contribution to the state funds, the contribution is relevant to the profit and loss account.

At the level of 2017, BCR paid, on behalf of its employees, contributions to the state social insurance fund, contributions to the single health insurance fund and the unemployment allowance. Also in 2017, the Bank and its subsidiaries in Romania paid to the Romanian state funds contributions to social insurance, contributions to health insurance, contributions to the unemployment fund, contribution to the guarantee fund and contribution to the accident fund. These contributions were relevant to the income statement. 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.

(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.

(26) 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.
In accordance with the provisions of IAS 37, BCR Group does not recognize on-balance the contingent liabilities because they are, either:

- possible obligations depending on whether some uncertain future event occurs, or
- present obligations but payment is not probable or the amount cannot be measured reliably

The same policy is applied for contingent assets which are defined as possible assets that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.
Contingent liabilities as well as contingent assets are monitored and revalued on a continuous basis in order to ensure that all subsequent to initial recognition developments have been considered and a provision will be recognized, if the case.

2. Accounting policies *(continued)*

2.3. Summary of significant accounting policies *(continued)*

(27) 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.

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.

(28) Contract assets and contract liabilities

A contract asset is an entity’s right to consideration in exchange for goods or services that the entity has transferred to a customer when that right is conditioned on something other than the passage of time (for example, the entity’s future performance).

A contract liability is an entity’s obligation to transfer goods or services to a customer for which the entity has received consideration (or the amount is due) from the customer.

(29) Fiduciary assets

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

2. Accounting policies *(continued)*

2.3. Summary of significant accounting policies *(continued)*

(30) 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.

(31) 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.

(32) 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

Net interest income is broken down into line items of interest income, other similar income, interest expenses and other similar expenses. The distinguishing factor is whether the EIR method is mandatorily applied for recognition of interest income or expense in accordance with IFRS 9.

'Interest income' relates to interest revenue from financial assets measured at amortised cost and at fair value through other comprehensive income.

It is calculated using the EIR method as discussed in chapter 'Financial instruments', 'Measurement methods for financial instruments', part 'i. Amortised cost and effective interest rate'.

'Other similar income' captures interest-like sources of income resulting from non-derivative financial assets measured at fair value through profit or loss, held-for-trading derivatives used for economic hedge, hedge accounting derivatives and negative interest on financial liabilities.

'Interest expenses' relates to interest expense from financial liabilities measured at amortised cost calculated using effective interest rate as discussed in chapter 'Financial instruments', 'Measurement methods for financial instruments', part (i) Amortised cost and effective interest rate.

'Other similar expenses' capture interest-like sources of expense resulting from non-derivative financial liabilities measured at fair value through profit or loss, held-for-trading derivatives used for economic hedge, hedge accounting derivatives, negative interest on financial assets, effect of passage of time on provisions recognised under IFRS 9 and IAS 37 and net defined liability (net interest cost on severance payment, pension and jubilee obligations) under IAS 19.

As regards types of financial instruments, interest income and other similar income include interest income on loans and advances to banks and customers, on cash balances, and on debt securities in all measurement categories of financial assets. Interest expenses and other similar expenses include interest paid on deposits from customers, deposits from banks, debt securities issued and other financial liabilities in all measurement categories of financial liabilities. Net interest income also includes interest on derivative financial instruments.

Interest income also includes modification gains and losses recognised on financial assets in Stage 1. Further, the unamortised balance of the origination fees/transaction costs upon derecognition of assets in Stage 1 and 2 considered in the effective interest rate is presented as interest income at the derecognition date.

2. Accounting policies *(continued)*

2.3. Summary of significant accounting policies *(continued)*

(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

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.

2.4. Changes in accounting policy and disclosures

The following amended standards became effective for the Group from 1 January 2018, but did not have any material impact on the Group:

- Amendments to IFRS 2 'Share-based Payment' (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 4 - 'Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts' (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).
- Annual Improvements to IFRSs 2014-2016 cycle – Amendments to IFRS 1 an IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- IFRIC 22 'Foreign Currency Transactions and Advance Consideration' (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Amendments to IAS 40 – 'Transfers of Investment Property' (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

IFRS 15 application

Starting with 2018, the Bank applied the IFRS 15 for recognition of income derived from its contracts with customers. Under IFRS 15, BCR recognizes revenue when (or as) it satisfies a performance obligation by transferring a promised good or service to a customer (which is when the customer obtains control of that good or service). For performance obligations satisfied over time, the revenue is recognized over time by selecting an appropriate method for measuring the progress towards complete satisfaction of that performance obligation. For performance obligations satisfied at a point in time, the date at which the BCR transfers control of the good or service to the customer is the moment when the income is recognized.

Initially, all income streams to which IFRS 15 should be applied were identified with focus on those area were more significant changes in income recognition were expected, namely: credit cards, current account packages, insurance/pension brokerage and advisory contracts. From the analysis performed over the existing contracts with customers at the transition date, namely 1st of January 2018, resulted immaterial changes in income recognition (less than 1 mil RON revenue recognized earlier than under the preceding standard).

2. Accounting policies *(continued)*

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

Changes in presentation for 2017

Where necessary, corresponding figures have been adjusted as required by IAS 1.82(a) for net interest income, whilst for other operating result due to netting of pass-through cost.
The effect of reclassifications for Group presentation purposes was as follows on amounts at 31 December 2017:

Statement of Comprehensive Income			Group
in RON thousands	As originally presented	Reclassification	As reclassified at 31 December 2017
Net interest income	**1,764,197**	**-**	**1,764,197**
Interest income	2,236,504	(46,692)	2,189,812
Other similar income		46,692	46,692
Interest expense	(472,307)	21,228	(451,079)
Other similar expense		(21,228)	(21,228)
Other operating result	**(406,259)**	**-**	**(406,259)**
Other income	246,790	(21,620)	225,170
Other expense	(653,049)	21,620	(631,429)

Statement of Comprehensive Income			Bank
in RON thousands	As originally presented	Reclassification	As reclassified at 31 December 2017
Net interest income	**1,678,727**	**-**	**1,678,727**
Interest income	2,078,763	(45,153)	2,033,610
Other similar income		45,153	45,153
Interest expense	(400,036)	21,206	(378,830)
Other similar expense		(21,206)	(21,206)
Other operating result	**(456,210)**	**-**	**(456,210)**
Other income	161,288	(60,682)	100,606
Other expense	(617,498)	60,682	(556,816)

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 2019 or later, and which the Group has not early adopted.

IFRS 16 'Leases' (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise:
(a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and
(b) depreciation of lease assets separately from interest on lease liabilities in the income statement.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group decided that it will apply the standard using the modified retrospective method, without restatement of comparatives. The Group recognised a right of use asset of RON 296,090 thousands against a corresponding lease liability on 1 January 2019:

	Group	Bank
in RON thousands	31 December 2018 / 1 January 2019	
Undiscounted Future fixed lease payments	387,432	362,265
Effect of discounting to present value	(91,900)	(87,334)
Future fixed lease payments	295,532	274,931

2. Accounting policies *(continued)*

2.5 Standards issued but not yet effective and not early adopted *(continued)*

IFRIC 23 'Uncertainty over Income Tax Treatments' (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019). IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgments or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgment or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgments and estimates required by the Interpretation.

IFRS 17 'Insurance Contracts' (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately.

Amendments to IAS 28 'Long-term Interests in Associates and Joint Ventures' (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019). The amendments clarify that reporting entities should apply IFRS 9 to long-term loans, preference shares and similar instruments that form part of a net investment in an equity method investee before they can reduce such carrying value by a share of loss of the investee that exceeds the amount of investor's interest in ordinary shares.

Annual Improvements to IFRSs 2015-2017 cycle - amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019). The narrow scope amendments impact four standards. IFRS 3 was clarified that an acquirer should remeasure its previously held interest in a joint operation when it obtains control of the business. Conversely, IFRS 11 now explicitly explains that the investor should not remeasure its previously held interest when it obtains joint control of a joint operation, similarly to the existing requirements when an associate becomes a joint venture and vice versa. The amended IAS 12 explains that an entity recognises all income tax consequences of dividends where it has recognised the transactions or events that generated the related distributable profits, eg in profit or loss or in other comprehensive income. It is now clear that this requirement applies in all circumstances as long as payments on financial instruments classified as equity are distributions of profits, and not only in cases when the tax consequences are a result of different tax rates for distributed and undistributed profits. The revised IAS 23 now includes explicit guidance that the borrowings obtained specifically for funding a specified asset are excluded from the pool of general borrowings costs eligible for capitalisation only until the specific asset is substantially complete.

Amendments to IAS 19 'Plan Amendment, Curtailment or Settlement' (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019). The amendments specify how to determine pension expenses when changes to a defined benefit pension plan occur. When a change to a plan—an amendment, curtailment or settlement—takes place, IAS 19 requires to remeasure net defined benefit liability or asset. The amendments require to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. Before the amendments, IAS 19 did not specify how to determine these expenses for the period after the change to the plan. By requiring the use of updated assumptions, the amendments are expected to provide useful information to users of financial statements

Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020). The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's consolidated financial statements.

2. Accounting policies *(continued)*

2.5 Standards issued but not yet effective and not early adopted *(continued)*

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB. The EU endorsement is postponed as IASB effective date is deferred indefinitely). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary.

Prepayment Features with Negative Compensation - Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019). The amendments enable measurement at amortised cost of certain loans and debt securities that can be prepaid at an amount below amortised cost, for example at fair value or at an amount that includes a reasonable compensation payable to the borrower equal to present value of an effect of increase in market interest rate over the remaining life of the instrument. In addition, the text added to the standard's basis for conclusion reconfirms existing guidance in IFRS 9 that modifications or exchanges of certain financial liabilities measured at amortised cost that do not result in the derecognition will result in an gain or loss in profit or loss. Reporting entities will thus in most cases not be able to revise effective interest rate for the remaining life of the loan in order to avoid an impact on profit or *loss upon a loan modification.*

Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020).The amendments revise definition of a business. A business must have inputs and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present, including for early stage companies that have not generated outputs. An organised workforce should be present as a condition for classification as a business if are no outputs. The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets. An entity can apply a 'concentration test'. The assets acquired would not represent a business if substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets).

Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020).The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

3. Net interest income

	Group		Bank	
in RON thousands	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**
Interest and other similar income				
Financial assets held to maturity		440,122		440,122
Loans and advances out of which :		1,542,427		1,455,983
Loans and advances to customers		1,476,508		1,438,218
Finance lease receivables		52,516		-
Due from other banks		2,881		7,242
Reverse repurchase receivables		10,522		10,522
Financial assets at amortised cost	2,386,795		2,237,970	
Loans and advances to customers	1,731,948		1,672,311	
Debt securities	522,747		468,331	
Finance lease receivables	41,455		-	
Trade and other receivables	14,989		13,589	
Loans and advances to banks	52,977		41,984	
Reverse repurchase receivables	22,679		41,755	
Cash and cash equivalents	9,204	5,857	7,225	4,582
Financial assets available for sale		207,263		137,506
Financial assets measured at fair value through other comprehensive income	149,369		147,301	
Interest income	**2,545,368**	**2,195,669**	**2,392,496**	**2,038,192**
Non-trading financial assets at fair value through profit or loss	759		759	
Financial assets - held for trading	28,947	35,016	28,947	35,016
Other assets	7,447	3,930	7,243	3,666
Negative interest from financial liabilities	1,540	1,889	1,540	1,889
Other similar income*	**38,693**	**40,835**	**38,489**	**40,571**
Total interest and other similar income	**2,584,061**	**2,236,504**	**2,430,985**	**2,078,763**
Interest and other similar expense				
Financial liabilities measured at amortised cost out of which	(513,662)	(451,079)	(461,631)	(378,830)
Term deposits of individuals	(105,648)	(124,901)	(49,440)	(60,207)
Term placements of other banks	(63,895)	(112,786)	(64,541)	(103,189)
Subordinated loans	(99,438)	(101,365)	(99,438)	(101,365)
Term deposits of legal entities	(164,808)	(47,077)	(166,895)	(49,119)
Debt securities in issue	(29,843)	(36,457)	(29,843)	(36,457)
Other borrowed funds	(30,174)	(17,220)	(13,320)	(17,220)
Repurchase transactions	(14,595)	(7,538)	(33,671)	(7,538)
Overnight placements of other banks	(2,930)	(1,439)	(2,930)	(1,439)
Other financial liabilities	(2,331)	(2,296)	(1,553)	(2,296)
Interest expenses	**(513,662)**	**(451,079)**	**(461,631)**	**(378,830)**
Financial liabilities - held for trading	(13,987)	(16,150)	(13,987)	(16,150)
Other liabilities	(9,108)	(4,918)	(8,781)	(4,896)
Negative Interest from financial assets	(109)	(160)	(109)	(160)
Other similar expenses*	**(23,204)**	**(21,228)**	**(22,877)**	**(21,206)**
Total Interest and other similar expense	**(536,866)**	**(472,307)**	**(484,508)**	**(400,036)**
Net interest income	**2,047,195**	**1,764,197**	**1,946,477**	**1,678,727**
Thereof: interest-income on credit impaired financial assets	**31,790**	**47,090**	**31,717**	**46,609**

*There is a change in presentation for 2018 and 2017 was restated accordingly, for more details please refer to Accounting policies 2.3 point (i) Net interest income.

Modification gains of financial instruments allocated to Stage 1 in the amount of RON 16,822 thousands at Group level and RON 17,079 thousands at Bank level is reported in line item ‘Financial assets at amortised cost’.

4. Net fees and commission income

Group

in RON thousands	31.12.2018		31.12.2017	
	Income	Expense	Income	Expense
Securities	**9,720**	**(4,165)**	**7,517**	**(3,358)**
Transfer orders	9,720	(4,165)	7,517	(3,358)
Clearing and settlement	6,425	(12,893)	13,205	(11,453)
Asset management	39,366	-	33,906	-
Custody	15,705	(4,981)	16,563	(4,825)
Payment services	**535,603**	**(106,908)**	**508,969**	**(96,495)**
Card business	119,171	(61,913)	86,380	(52,958)
Other	416,432	(44,995)	422,589	(43,537)
Customer resources distributed but not managed	**135,923**	**(2,627)**	**136,597**	**(2,669)**
Collective investment	39,506	-	47,067	-
Insurance products	72,806	-	62,529	-
Building society brokerage	-	-	398	-
Foreign exchange transactions	23,228	(2,627)	18,815	(2,669)
Other	383	-	7,788	-
Structured finance	1,743	-	2,816	-
Lending business	**107,428**	**(28,920)**	**111,992**	**(21,751)**
Guarantees given, guarantees received	34,068	(7,356)	27,598	(4,958)
Loan commitments given, loan commitments received	20,275	(123)	20,359	-
Other lending business	53,085	(21,441)	64,035	(16,793)
Other	29,263	(13,868)	13,771	(4,047)
Total fee and commission income and expenses	**881,176**	**(174,362)**	**845,336**	**(144,598)**
Net fee and commission income	**706,814**		**700,738**	

Bank

in RON thousands	31.12.2018		31.12.2017	
	Income	Expense	Income	Expense
Securities	**9,720**	**(4,165)**	**7,517**	**(3,358)**
Transfer orders	9,720	(4,165)	7,517	(3,358)
Clearing and settlement	6,430	(12,776)	13,205	(11,453)
Custody	15,705	(3,494)	16,563	(3,612)
Payment services	**532,267**	**(105,056)**	**505,325**	**(93,823)**
Card business	116,871	(60,623)	84,561	(51,921)
Other	415,396	(44,433)	420,764	(41,902)
Customer resources distributed but not managed	**134,046**	**(2,627)**	**132,836**	**(2,669)**
Collective investment	39,506	-	47,067	-
Insurance products	65,096	-	58,768	-
Building society brokerage	999	-	398	-
Foreign exchange transactions	23,228	(2,627)	18,815	(2,669)
Other	5,217	-	7,788	-
Structured finance	1,743	-	2,816	-
Lending business	**107,458**	**(19,940)**	**111,372**	**(10,950)**
Guarantees given, guarantees received	33,725	(1,320)	27,352	(253)
Loan commitments given, loan commitments received	20,275	-	20,359	-
Other lending business	53,458	(18,620)	63,661	(10,697)
Other	16,793	(2,251)	2,585	(5,194)
Total fee and commission income and expenses	**824,162**	**(150,309)**	**792,219**	**(131,059)**
Net fee and commission income	**673,853**		**661,160**	

5. Dividend income

	Group		Bank	
in RON thousands	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**
Available-for-sale financial assets		4,155		4,155
Dividend income from equity investments		-		15,717
Non-trading financial assets at fair value through profit or loss (i)	3,040		3,040	
Financial assets at fair value through other comprehensive income (ii)	691		691	
Dividend income from investment in subsidiaries (iii)	-		7,953	
Dividend income	**3,731**	**4,155**	**11,684**	**19,872**

(i) Dividends received from non-trading financial assets at fair value through profit or loss: Biroul de Credit, Transfond, Bursa de Valori Bucuresti, BCR Asigurari de Viata, Univers SA.
(ii) Dividends received from financial assets at fair value through other comprehensive income: VISA, Mastercard.
(iii) Dividends received from financial assets at amortised cost: BCR Pensii, BCR Payments.

6. Net trading result

	Group			Bank
in RON thousands	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**
Net Trading Result				
Securities and derivatives trading (i)	100,461	44,112	100,461	44,135
Foreign exchange transactions (ii)	331,248	285,079	326,524	285,079
Net Trading Result	**431,709**	**329,191**	**426,985**	**329,214**

(i) Increased mainly due to investments in government bonds held for trading

(ii) Increased 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. Gains/losses from financial instruments measured at fair value through profit or loss

	Group		Bank	
in RON thousands	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**
Result from measurement/sale of financial assets designated at fair value through profit or loss	-	1,689	-	1,689
Result from measurement/sale of financial assets mandatorily at fair value through profit or loss (i)	18,429		18,429	

(i) Higher gains due to fair value changes of certain loans to customers not measured at amortised cost and equity instruments.

8. Rental income from investment properties and other operating leases

	Group		Bank	
in RON thousands	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**
Investment properties	2,705	130	2,705	-
Other operating leases	75,683	63,159	8,340	9,840
Rental income from investment properties & other operating leases	**78,388**	**63,289**	**11,045**	**9,840**

Operating leases are mainly from car fleets rentals and other buildings which do not meet the criteria for investment property. Reported increase is in line with expectation of operating leasing business of the Group.

9. General administrative expenses

	Group		Bank	
in RON thousands	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**
Personnel expenses (i)	(780,810)	(741,664)	(684,947)	(661,913)
Other administrative expenses (ii)	(671,461)	(635,573)	(689,897)	(652,791)
Depreciation and amortisation (iii)	(197,901)	(166,983)	(136,238)	(117,269)
Total	**(1,650,172)**	**(1,544,220)**	**(1,511,082)**	**(1,431,973)**
Personnel expenses	**(780,810)**	**(741,664)**	**(684,947)**	**(661,913)**
Wages and salaries	(719,433)	(588,057)	(633,263)	(525,702)
Compulsory social security (i)	(24,448)	(118,975)	(20,407)	(105,602)
Long-term employee provisions	(223)	(1,811)	(95)	(1,676)
Other personnel expenses	(36,706)	(32,821)	(31,182)	(28,933)
Other administrative expenses	**(671,461)**	**(635,573)**	**(689,897)**	**(652,791)**
Payments into deposit insurance fund	(20,257)	(10,153)	(16,808)	(8,854)
IT expenses	(225,227)	(192,944)	(218,482)	(186,919)
Expenses for office space	(67,092)	(74,574)	(64,104)	(65,890)
Office operating expenses	(97,434)	(101,283)	(156,526)	(158,853)
Security services	(15,706)	(16,468)	(13,665)	(13,267)
Operating leases	(78,291)	(57,450)	(74,696)	(54,851)
Advertising / Marketing	(59,493)	(44,805)	(56,677)	(42,132)
Legal and consulting costs	(48,033)	(62,852)	(43,302)	(58,659)
Sundry administrative expenses	(59,928)	(75,044)	(45,637)	(63,366)
Depreciation and amortisation	**(197,901)**	**(166,983)**	**(136,238)**	**(117,269)**
Software and other intangible assets	(61,372)	(45,080)	(57,780)	(42,154)
Owner occupied real estate	(34,995)	(40,916)	(34,227)	(39,817)
Investment properties	(3,722)	-	(3,722)	-
Office furniture and equipment and sundry property and equipment	(97,812)	(80,987)	(40,509)	(35,298)
General administrative expenses	**(1,650,172)**	**(1,544,220)**	**(1,511,082)**	**(1,431,973)**

(i) Personnel expenses are higher in 2018 compared to 2017 by RON 39,146 thousands to BCR Group level mainly due to salaries and benefits adjustment to market conditions, following new Collective Labor Agreement in place starting April 2018. Long term employee provisions are described in Note 37. Starting with 2018, the social contributions were transferred entirety to the employees and are paid by the employer on behalf of the employees. Contributions for private pensions are included in other personnel expenses.

The number of Own employees of the Bank at 31 December 2018 was 6,054 employees (31 December 2017: 6,126 employees).

The number of Own employees of the Group at 31 December 2018 was 7,237 employees (31 December 2017: 7,265 employees).

(ii) Other administrative expenses for the Group in 2018 are higher by RON 35,888 thousands compared with 2017, driven by higher annual contribution to deposit insurance fund (RON 10,104 thousand), higher cost for software maintenance (RON 32,283 thousand), increase of operating leases and marketing cost, partly offset by lower office space costs and lower legal and consulting costs.

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 27 April 2018.

(iii) Depreciation and amortization for the Group 2018 are higher by RON 30,918 thousands compared with 2017 driven mainly due to increase of IT amortisation due to changes in useful lives for software applications and higher investments for clients (Depreciation on operating lease), buildings related refurbishments and other property investments.

The key management remuneration paid during 2018 were of RON 14,231 thousands (2017: RON 12,962 thousands). The pension contribution for 2018 for key management is 0 (according to new legislation were transferred entirely to the employees). For 2017 the pension contribution was RON 1,429 thousand.

	2018				2017			
in RON thousands	Expense	Employer taxes	Accrued liability	Employer taxes	Expense	Employer taxes	Accrued liability	Employer taxes
Short-term benefits	**8,789**	**163**	**1,425**	**32**	**8,730**	**1,144**	**1,166**	**26**
Salaries	7,392	142	1,425	32	6,650	856	1,138	26
Short-term bonus	-	-	-	-	615	140	-	-
Benefits in kind	1,397	21	-	-	1,465	149	28	1
Share-based compensation:	22	-	14,997	337	(21)	(5)	15,715	354
Cash-settled share-based compensation (bonus cash)	22	-	14,997	337	(21)	(5)	15,715	354

The actual cash out for share based compensation was of 5,154,146 RON in 2018 and 3,947,964 RON in 2017.

9. General administrative expenses *(continued)*

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

	2018	2017
Domestic	**7,137**	**7,017**
Banca Comerciala Romana	6,071	6,093
BCR Leasing IFN SA	113	104
BCR Pensii, Societate de Administrare a Fondurilor de Pensii Private SA	45	46
BCR Banca pentru Locuinte SA	82	81
Suport Colect SRL	5	3
CIT One SRL	716	603
BCR Fleet Management SRL	8	7
BCR Payments SPV	97	80
Abroad	**92**	**84**
BCR Chisinau SA	92	84
Total	**7,229**	**7,101**

10. Gains/losses from financial assets and liabilities at fair value through other comprehensive income

	Group		Bank	
in RON thousands	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**
Gain from sale of financial assets available for sale		791		791
Loss from sale of financial assets assets available for sale		(640)		(640)
Gain from sale of financial assets at fair value through other comprehensive income	2,323		2,323	
Loss from sale of financial assets at fair value through other comprehensive income	(102)		(102)	
Gain/(loss) from sale of financial assets at fair value through other comprehensive income	**2,221**	**151**	**2,221**	**151**

11. Net impairment loss on financial assets

	Group		Bank	
in RON thousands	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**
Allocation to risk provisions for financial assets at fair value through other comprehensive income	(2,711)		(2,441)	
Release of risk provisions for financial assets at fair value through other comprehensive income	1,669		1,669	
Financial assets at amortised cost	(51,956)		(52,674)	
Allocation to risk provisions	(2,276,510)		(2,260,748)	
Release of risk provisions	2,167,509		2,151,460	
Direct write-offs	(63,795)		(39,172)	
Recoveries recorded directly to the income statement	123,261		98,205	
Modification gains or losses	(2,421)		(2,419)	
Finance lease	(1,134)		-	
Allocation of provisions for commitments and guarantees given (i)	(607,196)		(608,913)	
Release of provisions for commitments and guarantees given (i)	540,111		539,998	
Net impairment loss on financial instruments	**(121,217)**		**(122,361)**	

	Group		Bank	
in RON thousands	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**
Available-for-sale financial assets -allocation		**(572)**		**(566)**
Loans and advances		**(31,715)**		**(22,002)**
Allocation to risk provisions for Loans and advances		(740,948)		(661,070)
Release of risk provisions for Loans and advances		754,446		604,059
Direct write-offs of Loans and advances		(135,704)		(25,460)
Recoveries on written-off loans and sale of loans		90,491		60,469
Held to maturity instruments - allocations		**(771)**		**(771)**
Held to maturity instruments - release		**640**		**640**
Total		**(32,418)**		**(22,699)**

(i)Starting with 2018, the net allocation of provisions for commitments and guarantees given are presented in 'Net impairment loss on financial assets not measured at fair value through profit or loss'.

BCR Group continued to strengthen its recovery capabilities aiming to improve the overall quality of the portfolio. Net impairment losses better than normalized risk cost as the allocations for new defaults were partially offset by releases from the non-performing loans portfolio.

12. Other operating result

	Group		Bank	
in RON thousands	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**
Other income, of which:	**282,442**	**225,170**	**175,707**	**100,606**
Other provisions - net release/ (allocation)	108,102	33,082	98,163	43,892
Gain on disposal of premises and equipment	-	2,424	5,831	2,801
Gain on disposal of investment properties	16,983	-	8,179	-
Gains on other assets	87,163	104,791	41,585	25,769
Other income	70,194	84,873	21,949	28,144
Other expense, of which:	**(370,362)**	**(631,429)**	**(436,194)**	**(556,816)**
Loss on disposal of premises and equipment	(812)	-	-	-
Losses on other assets	(64,429)	(119,032)	(24,932)	(28,470)
Off balance sheet provisions (iv)	-	(124,825)	-	(124,756)
Impairment of subsidiaries (i)	-	-	(166,410)	(97,410)
Impairment of tangible and intangible assets (ii)	(94,636)	(73,363)	(96,024)	(70,375)
Recovery and resolution fund	(25,408)	(69,455)	(25,403)	(64,951)
Insurance premiums	(73,719)	(79,377)	(58,011)	(68,745)
Other taxes	(16,213)	(21,573)	(13,889)	(16,162)
Other expenses (iii)	(95,145)	(143,804)	(51,525)	(85,947)
Total	**(87,920)**	**(406,259)**	**(260,487)**	**(456,210)**

(i) Impairment of subsidiaries is eliminated at Group level. Further details are presented in Note 34.

(ii) For 2018, the amount includes impairment for property, plant and equipment of RON (76,390) thousands for the Group and RON (77,778) thousands for the Bank and impairment of software of RON (18,246) thousands only for the Bank.

(iii) Includes sundry expenses: litigations, penalties.

(iv) Starting with 2018, the net allocation of provisions for commitments and guarantees given are presented in 'Net impairment loss on financial assets not measured at fair value through profit or loss'.

13. 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.

	Group		Bank	
in RON thousands	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**
Current tax expense/income	(228,034)	(79,789)	(227,407)	(80,112)
Deferred tax expense/income	1,815	(157,219)	7,299	(156,600)
Taxes on income	**(226,219)**	**(237,008)**	**(220,108)**	**(236,712)**

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.

	Group		Bank	
in RON thousands	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**
Pre-tax profit/(loss)	**1,428,482**	**905,135**	**1,190,555**	**807,022**
Income tax expense for the financial year at the domestic statutory tax rate (16%)	(228,396)	(144,822)	(190,489)	(129,124)
Impact of tax-exempt earnings of investments and other tax-exempt income	238,660	56,127	193,032	56,127
Tax increases due to non-deductible expenses, additional business tax and similar elements	(311,080)	(238,260)	(278,655)	(253,662)
Impact of other elements and deferred tax income/ (expense)	15,703	-	15,847	-
Tax expense not atributable to the reporting period	58,894	89,947	40,157	89,947
Income tax (expense) / release reported in the income statement	**(226,219)**	**(237,008)**	**(220,108)**	**(236,712)**
The effective tax rate	**15.84%**	**26.18%**	**18.49%**	**29.33%**

13. Taxes on income *(continued)*

The following table shows the income tax effects relating to each component of other comprehensive income:

Group

in RON thousands	2018 Before-tax amount	2018 Tax benefit/ (expense)	2018 Net-of-tax amount	2017 Before-tax amount	2017 Tax benefit/ (expense)	2017 Net-of-tax amount
Available for sale-reserve				288,082	(46,090)	241,992
Fair value reserve	77,459	(11,786)	65,673			
Remeasurement of net gain (losses) on benefit plans	82,825	(13,252)	69,573	82,546	(13,207)	69,339
Currency translation reserve of foreign subsidiary	(13,732)	-	(13,732)	(18,502)	-	(18,502)
Other comprehensive income	**146,552**	**(25,038)**	**121,514**	**352,126**	**(59,297)**	**292,829**

Bank

in RON thousands	2018 Before-tax amount	2018 Tax benefit/ (expense)	2018 Net-of-tax amount	2017 Before-tax amount	2017 Tax benefit/ (expense)	2017 Net-of-tax amount
Available for sale-reserve				288,452	(46,152)	242,300
Fair value reserve	75,909	(11,789)	64,120			
Remeasurement of net gain (losses) on benefit plans	82,883	(13,261)	69,622	82,546	(13,206)	69,340
Other comprehensive income	**158,792**	**(25,050)**	**133,742**	**370,998**	**(59,358)**	**311,640**

The main elements similar to expenses include the deduction of fiscal depreciation, the deduction of impairment of fixed assets and the impact of translation to IFRS 9.

The main elements similar to revenues, considered by the Bank include the taxation of the gain obtained from seling of participation in some companies, other than subsidiaries and the taxation of selling of receivables.

For the Bank, the variation of income tax for the financial year, between 2017 and 2018 was mainly due to the following:

- Increase of the accounting result;
- The fiscal impact of selling of participation in some companies;
- The additional fiscal impact of the selling of receivables;
- Increase of the non-deductible expenses;
- At the level of 2017, the 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 still challenging the results of the fiscal audit closed in 2017. The non-current tax asset recognized in 2017 refers to tax on the impairment of subsidiaries that the Bank considers to be deductible from fiscal perspective.

14. Dividends paid

During 2018, dividends in amount of RON 228,063 thousand were paid, out of which RON 213,476 thousand to equity holders of the parent and RON 14,587 thousand to non-controlling interests.

15. Cash and cash balances

in RON thousands	Group 31.12.2018	Group 31.12.2017	Bank 31.12.2018	Bank 31.12.2017
Cash on hand	5,646,233	4,712,308	5,627,632	4,694,799
Cash balances with the central bank (other than mandatory reserve deposits)	165,486	59,767	-	-
Mandatory cash balances with central banks	5,109,422	5,917,345	5,088,432	5,895,098
Correspondent accounts and overnight placements with other banks	202,050	354,869	146,788	330,435
Overnight reverse sale and repurchase agreements with other banks	-	325,055	-	325,055
Cash and cash balances	**11,123,191**	**11,369,344**	**10,862,852**	**11,245,387**

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 2018 were for RON 8% (December 2017: 8%) and for foreign currencies 8% (December 2017: 8%) 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. All cash and cash equivalents are in Stage 1, for more details please see Note 46.5.

16. Derivatives held for trading

Group

in RON thousands	2018 Notional amount	2018 Fair value Positive	2018 Fair value Negative	2017 Notional amount	2017 Fair value Positive	2017 Fair value Negative
Derivatives held in Trading book	**6,669,085**	**19,903**	**21,728**	**4,907,933**	**20,459**	**21,507**
Interest rate instruments and related derivatives	5,429,485	17,578	19,252	4,288,532	18,331	19,591
Equity instruments and related derivatives	-	-	-	147,573	-	-
Foreign exchange trading and related derivatives	1,239,600	2,325	2,476	471,828	2,128	1,916
Derivatives held in Banking Book	**2,423,175**	**11,159**	**11,260**	**3,235,945**	**20,990**	**23,154**
Interest rate instruments and related derivatives	231,188	9,183	589	423,342	20,766	1,066
Equity instruments and related derivatives	93,278	-	-	155,420	-	-
Foreign exchange trading and related derivatives	2,098,709	1,976	10,671	2,657,183	224	22,088
Total	**9,092,260**	**31,062**	**32,988**	**8,143,878**	**41,449**	**44,661**

Bank

in RON thousands	2018 Notional amount	2018 Fair value Positive	2018 Fair value Negative	2017 Notional amount	2017 Fair value Positive	2017 Fair value Negative
Derivatives held in Trading book	**6,743,241**	**20,030**	**21,728**	**4,907,933**	**20,459**	**21,507**
Interest rate instruments and related derivatives	5,429,485	17,578	19,252	4,288,532	18,331	19,591
Equity instruments and related derivatives	-	-	-	147,573	-	-
Foreign exchange trading and related derivatives	1,313,756	2,452	2,476	471,828	2,128	1,916
Derivatives held in Banking Book	**2,423,175**	**11,159**	**11,260**	**3,235,945**	**20,990**	**23,154**
Interest rate instruments and related derivatives	231,188	9,183	589	423,342	20,766	1,066
Equity instruments and related derivatives	93,278	-	-	155,420	-	-
Foreign exchange trading and related derivatives	2,098,709	1,976	10,671	2,657,183	224	22,088
Total	**9,166,416**	**31,189**	**32,988**	**8,143,878**	**41,449**	**44,661**

Trading book portfolio increased in 2018 versus 2017 due to new trades.

Banking book portfolio decreased due to a combined effect of lower valuation and expiring trades not replaced by new tickets.

17. Other financial assets held for trading

	Group		Bank	
in RON thousands	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**
Debt securities	182,903	63,245	182,903	63,245
General governments (i)	182,903	63,245	182,903	63,245
Other financial assets held for trading	**182,903**	**63,245**	**182,903**	**63,245**

(i) Debt securities include treasury bills and bonds denominated in RON. The amount significantly increased during 2018 due to investments in treasury bills and bonds, both issued by Ministry of Public Finance.

18. Financial assets at fair value through profit or loss – under IAS 39

	Group		Bank	
in RON thousands	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**
Debt securities		**15,131**		**15,131**
General governments (i)		15,131		15,131
Total financial assets designated at fair value through profit and loss		**15,131**		**15,131**

(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.

19. Non-trading financial assets at fair value through profit or loss – under IFRS 9

	Group	Bank
	31.12.2018	31.12.2018
in RON thousands	Mandatorily at fair value	Mandatorily at fair value
Equity instruments	33,475	33,232
Loans and advances to customers	5,920	5,920
Non-financial corporations (i)	5,920	5,920
Non-trading financial assets at fair value through profit or loss	**39,395**	**39,152**

(i) Loans and advances to customers include loans whose contractual cash flows are not considered as SPPI.

20. Financial assets available for sale – under IAS 39

	Group		Bank	
in RON thousands	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**
Equity instruments		242,422		242,190
Debt securities		6,357,528		5,904,802
General governments		6,357,528		5,904,802
Total available-for-sale financial assets		**6,599,950**		**6,146,992**

21. Financial assets at fair value through other comprehensive income – under IFRS 9

									31.12.2018	Group
in RON thousands	Gross carrying amount				Credit loss allowances				Accumulated other fair value changes	Carrying amount
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total		
Debt securities	**5,124,698**	**-**	**-**	**5,124,698**	**(3,789)**	**-**	**-**	**(3,789)**	**56,662**	**5,181,360**
Central banks	21,490	-	-	21,490	(960)	-	-	(960)	-	21,490
General governments	5,098,203	-	-	5,098,203	(2,775)	-	-	(2,775)	55,650	5,153,853
Non-financial corporations	5,005	-	-	5,005	(54)	-	-	(54)	1,012	6,017
Total	**5,124,698**	**-**	**-**	**5,124,698**	**(3,789)**	**-**	**-**	**(3,789)**	**56,662**	**5,181,360**

Allowances for financial assets at fair value through other comprehensive income								31.12.2018	Group
in RON thousands	Opening balance	Increases due to origination and acquisition	Decreases due to derecognition	Net changes due to change in credit risk	Transfers between Stage 1 and Stages 2/3	Net changes due to modifications without derecognition	Decrease in allowance account due to write-offs	Exchange-rate and other changes (+/-)	Closing balance
Debt securities									
Stage 1	**(2,683)**	**(2,659)**	**842**	**-**	**-**	**775**	**-**	**(64)**	**(3,789)**
Central banks	-	(943)	-	-	-	-	-	(17)	(960)
General governments	(2,683)	(1,662)	842	-	-	775	-	(47)	(2,775)
Non-financial corporations	-	(54)	-	-	-	-	-	-	(54)
Total	**(2,683)**	**(2,659)**	**842**	**-**	**-**	**775**	**-**	**(64)**	**(3,789)**

									31.12.2018	Bank
in RON thousands	Gross carrying amount				Credit loss allowances				Accumulated other fair value changes	Carrying amount
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total		
Debt securities	**5,089,620**	**-**	**-**	**5,089,620**	**(2,223)**	**-**	**-**	**(2,223)**	**56,678**	**5,146,298**
Central banks	-	-	-	-	-	-	-	-	-	-
General governments	5,084,615	-	-	5,084,615	(2,169)	-	-	(2,169)	55,666	5,140,281
Non-financial corporations	5,005	-	-	5,005	(54)	-	-	(54)	1,012	6,017
Total	**5,089,620**	**-**	**-**	**5,089,620**	**(2,223)**	**-**	**-**	**(2,223)**	**56,678**	**5,146,298**

21. Financial assets at fair value through other comprehensive income – under IFRS 9 *(continued)*

Allowances for financial assets at fair value through other comprehensive income								31.12.2018	Bank
in RON thousands	Opening balance	Increases due to origination and acquisition	Decreases due to derecognition	Net changes due to change in credit risk	Transfers between Stage 1 and Stages 2/3	Net changes due to modifications without derecognition	Decrease in allowance account due to write-offs	Exchange-rate and other changes (+/-)	Closing balance
Debt securities									
Stage 1	**(1,450)**	**(1,122)**	**842**	**-**	**-**	**(491)**	**-**	**(2)**	**(2,223)**
General governments	(1,450)	(1,068)	842	-	-	(491)	-	(2)	(2,169)
Non-financial corporations	-	(54)	-	-	-	-	-	-	(54)
Total	**(1,450)**	**(1,122)**	**842**	**-**	**-**	**(491)**	**-**	**(2)**	**(2,223)**

During 2018, the Bank has sold the participations in Visa and Mastercard. The fair value at the date of derecognition (sale) of these shares was RON 233,810 thousands. The dividends received during 2018 related to derecognized investments were RON 691 thousands.

22. Financial assets held to maturity - under IAS 39

Group

in RON thousands	Total assets		Collective allowance		Carrying amount	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Debt securities		14,760,506		(3,612)		14,756,894
General governments		14,746,829		(3,612)		14,743,217
Credit institutions		13,677		-		13,677
Total financial assets held to maturity		**14,760,506**		**(3,612)**		**14,756,894**

Bank

in RON thousands	Total assets		Collective allowance		Carrying amount	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Debt securities		13,379,340		(3,612)		13,375,729
General governments		13,379,340		(3,612)		13,375,729
Total financial assets held to maturity		**13,379,340**		**(3,612)**		**13,375,729**

23. Securities

Group

	2018 Financial Assets				2017 Financial Assets			
in RON thousands	Financial assets at amortised cost	Trading financial assets	Financial assets mandatorily measured at fair value through profit or loss	Fiancial assets at fair value through other comprehensive income	Held-to-maturity investments	Financial assets held for trading	Financial assets designated at fair value through profit and loss	Available-for-sale financial assets
Bonds and other interest-bearing securities	**15,879,108**	**182,903**	**-**	**5,181,360**	**14,756,894**	**63,245**	**15,131**	**6,357,528**
Listed	15,822,264	59,776	-	3,644,017	14,711,579	63,001	15,131	4,184,769
Unlisted	56,844	123,127	-	1,537,343	45,315	244	-	2,172,759
Equity related securities	**-**	**-**	**33,475**	**40,721**	**-**	**-**	**-**	**242,422**
Listed	-	-	3,025	-	-		-	190,743
Unlisted	-	-	30,450	40,721	-	-	-	51,679
Total	**15,879,108**	**182,903**	**33,475**	**5,222,081**	**14,756,894**	**63,245**	**15,131**	**6,599,950**

Bank

	2018 Financial Assets				2017 Financial Assets			
in RON thousands	Financial assets at amortised cost	Trading financial assets	Financial assets mandatorily measured at fair value through profit or loss	Fiancial assets at fair value through other comprehensive income	Held-to-maturity investments	Financial assets held for trading	Financial assets designated at fair value through profit and loss	Available-for-sale financial assets
Bonds and other interest-bearing securities	**14,297,905**	**182,903**	**-**	**5,146,298**	**13,375,729**	**63,245**	**15,131**	**5,904,802**
Listed	14,297,905	59,776	-	3,644,017	13,375,729	63,002	15,131	3,759,705
Unlisted	-	123,127	-	1,502,281	-	243	-	2,145,097
Equity related securities	**-**	**-**	**33,232**	**40,721**	**-**	**-**	**-**	**242,190**
Listed	-	-	3,025	-	-	-	-	190,743
Unlisted	-	-	30,207	40,721	-	-	-	51,447
Total	**14,297,905**	**182,903**	**33,232**	**5,187,019**	**13,375,729**	**63,245**	**15,131**	**6,146,992**

24. Loans and advances to credit institutions under IAS 39

		31.12.2017	Group
in RON thousands	Total assets (gross carring amount)	Collective allowance	Carrying amount
Loans and advances	**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 advances to credit institutions	**2,221,261**	**(6,148)**	**2,215,113**

		31.12.2017	Bank
in RON thousands	Total assets (gross carring amount)	Collective allowance	Carrying amount
Loans and advances	**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 advances to credit institutions	**2,426,183**	**(6,148)**	**2,420,035**

The movement in allowances for loans and receivable to credit institution are presented below:

			31.12.2017	Group
in RON thousands	Opening balance	Allocations	Exchange-rate and other changes (+/-)	Closing Balance
Collective allowances				
Loans and advances	(4,636)	(1,399)	(113)	(6,148)
Credit institutions	(4,636)	(1,399)	(113)	(6,148)
Total	**(4,636)**	**(1,399)**	**(113)**	**(6,148)**

			31.12.2017	Bank
in RON thousands	Opening balance	Allocations	Exchange-rate and other changes (+/-)	Closing Balance
Collective allowances				
Loans and advances	(4,636)	(1,399)	(113)	(6,148)
Credit institutions	(4,636)	(1,399)	(113)	(6,148)
Total	**(4,636)**	**(1,399)**	**(113)**	**(6,148)**

This note shall be read in conjunction with Note 26 – Financial assets at amortised cost.

25. Loans and advances to customers under IAS 39

			31.12.2017	Group
in RON thousands	Total assets (gross carring amount)	Specific allowances	Collective allowance	Carrying amount
Loans and advances	**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 advances to customers	**36,218,506**	**(2,089,901)**	**(637,722)**	**33,490,883**

25. Loans and advances to customers under IAS 39 *(continued)*

			31.12.2017	Bank
in RON thousands	Total assets (gross carring amount)	Specific allowances	Collective allowance	Carrying amount
Loans and advances	**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 advances to customers	**34,584,123**	**(1,953,888)**	**(609,929)**	**32,020,306**

The movement in allowances for loans and receivable to customers are presented below:

								31.12.2017	Group
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 advances
Specific allowances									
Loans and advances	**(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 advances	**(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)**		

								31.12.2017	Bank
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 advances
Specific allowances									
Loans and advances	**(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 advances	**(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	-	(7,958)	(234,392)		
Total	**(3,370,162)**	**(659,671)**	**933,863**	**604,059**	**46,609**	**(118,515)**	**(2,563,817)**		

26. Financial assets at amortised cost under IFRS 9

31.12.2018 Group

in RON thousands	Gross carrying amount					Credit loss allowances				Total	Carrying amount
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	
Debt securities	**15,802,370**	**86,578**	**2,374**	**-**	**15,891,322**	**(9,596)**	**(1,025)**	**(1,593)**	**-**	**(12,214)**	**15,879,108**
General governments	15,802,370	86,578	2,374	-	15,891,322	(9,596)	(1,025)	(1,593)	-	(12,214)	15,879,108
Loans and advances to banks	**124,123**	**-**	**-**	**-**	**124,123**	**(283)**	**-**	**-**	**-**	**(283)**	**123,840**
Central banks	510	-	-	-	510	-	-	-	-	-	510
Credit institutions	123,613	-	-	-	123,613	(283)	-	-	-	(283)	123,330
Loans and advances to customers	**30,897,939**	**3,820,603**	**1,600,067**	**592,741**	**36,911,350**	**(123,855)**	**(450,029)**	**(1,283,665)**	**(213,530)**	**(2,071,079)**	**34,840,271**
General governments	1,879,753	918,712	11,020	14,912	2,824,397	(2,297)	(38,058)	(8,783)	(485)	(49,623)	2,774,774
Other financial corporations	156,886	19	17,986	-	174,891	(896)	-	(12,745)	-	(13,641)	161,250
Non-financial corporations	8,649,694	1,651,253	676,176	291,980	11,269,103	(76,474)	(238,381)	(514,926)	(61,202)	(890,983)	10,378,120
Households	20,211,606	1,250,619	894,885	285,849	22,642,959	(44,188)	(173,590)	(747,211)	(151,843)	(1,116,832)	21,526,127
Total	**46,824,432**	**3,907,181**	**1,602,441**	**592,741**	**52,926,795**	**(133,734)**	**(451,054)**	**(1,285,258)**	**(213,530)**	**(2,083,576)**	**50,843,219**

31.12.2018 Bank

in RON thousands	Gross carrying amount					Credit loss allowances				Total	Carrying amount
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	
Debt securities	**14,217,864**	**86,575**	**2,374**	**-**	**14,306,813**	**(6,290)**	**(1,025)**	**(1,593)**	**-**	**(8,908)**	**14,297,905**
Central banks	-	-	-	-	-	-	-	-	-	-	-
General governments	14,217,864	86,575	2,374	-	14,306,813	(6,290)	(1,025)	(1,593)	-	(8,908)	14,297,905
Loans and advances to banks	**364,221**	**27,590**	**-**	**-**	**391,811**	**(1,598)**	**(1,365)**	**-**	**-**	**(2,963)**	**388,848**
Central banks	510	-	-	-	510	-	-	-	-	-	510
Credit institutions	363,711	27,590	-	-	391,301	(1,598)	(1,365)	-	-	(2,963)	388,338
Loans and advances to customers	**30,189,068**	**3,739,743**	**1,505,154**	**592,710**	**36,026,675**	**(117,897)**	**(447,583)**	**(1,201,882)**	**(213,498)**	**(1,980,860)**	**34,045,815**
General governments	1,879,751	918,712	11,020	14,912	2,824,395	(2,297)	(38,058)	(8,783)	(485)	(49,623)	2,774,772
Other financial corporations	418,470	4	17,986	-	436,460	(1,390)	-	(12,745)	-	(14,135)	422,325
Non-financial corporations	7,918,371	1,574,387	646,113	291,980	10,430,851	(70,740)	(236,063)	(496,006)	(61,202)	(864,011)	9,566,840
Households	19,972,476	1,246,640	830,035	285,818	22,334,969	(43,470)	(173,462)	(684,348)	(151,811)	(1,053,091)	21,281,878
Total	**44,771,153**	**3,853,908**	**1,507,528**	**592,710**	**50,725,299**	**(125,785)**	**(449,973)**	**(1,203,475)**	**(213,498)**	**(1,992,731)**	**48,732,568**

The movements in allowances for financial assets at amortised cost – debt securities are presented below:

31.12.2018 Group

in RON thousands	Opening balance	Increases due to origination and acquisition	Decreases due to derecognition	Net changes due to change in credit risk	Transfers between Stage 1 and Stages 2/3	Net changes due to modifications without derecognition	Decrease in allowance account due to write-offs	Exchange-rate and other changes (+/-)	Closing balance
Debt securities									
Stage 1	**(6,644)**	**(2,842)**	**295**	**(345)**	**45**	**-**	**-**	**(105)**	**(9,596)**
Central banks	(610)	-	-	-	-	-	-	610	-
General governments	(6,034)	(2,842)	295	(345)	45	-	-	(715)	(9,596)
Stage 2	**(1,245)**	**-**	**-**	**583**	**(365)**	**-**	**-**	**2**	**(1,025)**
General governments	(1,245)	-	-	583	(365)	-	-	2	(1,025)
Stage 3	**(1,493)**	**-**	**-**	**(100)**	**-**	**-**	**-**	**-**	**(1,593)**
General governments	(1,493)	-	-	(100)	-	-	-	-	(1,593)
Total	**(9,382)**	**(2,842)**	**295**	**138**	**(320)**	**-**	**-**	**(103)**	**(12,214)**

31.12.2018 Bank

in RON thousands	Opening balance	Increases due to origination and acquisition	Decreases due to derecognition	Net changes due to change in credit risk	Transfers between Stage 1 and Stages 2/3	Net changes due to modifications without derecognition	Decrease in allowance account due to write-offs	Exchange-rate and other changes (+/-)	Closing balance
Debt securities									
Stage 1	**(4,132)**	**(309)**	**295**	**(2,186)**	**44**	**-**	**-**	**(2)**	**(6,290)**
General governments	(4,132)	(309)	295	(2,186)	44	-	-	(2)	(6,290)
Stage 2	**(1,241)**	**-**	**-**	**581**	**(365)**	**-**	**-**	**-**	**(1,025)**
General governments	(1,241)	-	-	581	(365)	-	-	-	(1,025)
Stage 3	**(1,493)**	**-**	**-**	**(100)**	**-**	**-**	**-**	**-**	**(1,593)**
General governments	(1,493)	-	-	(100)	-	-	-	-	(1,593)
Total	**(6,866)**	**(309)**	**295**	**(1,705)**	**(321)**	**-**	**-**	**(2)**	**(8,908)**

26. Financial assets at amortised cost under IFRS 9 *(continued)*

The movements in allowances for financial assets at amortised cost – loans and advances to banks are presented below:

31.12.2018 Group

in RON thousands	Opening balance	Increases due to origination and acquisition	Decreases due to derecognition	Net changes due to change in credit risk	Transfers between Stage 1 and Stages 2/3	Net changes due to modifications without derecognition	Decrease in allowance account due to write-offs	Exchange-rate and other changes (+/-)	Closing balance
Loans and advances to banks									
Stage 1	**(3,066)**	**(3,806)**	**5,389**	**(1,842)**	**2,163**	**4**	**-**	**875**	**(283)**
Central banks	(407)	-	-	(1)	419	-	-	(11)	-
Credit institutions	(2,659)	(3,806)	5,389	(1,841)	1,744	4	-	886	(283)
Total	**(3,066)**	**(3,806)**	**5,389**	**(1,842)**	**2,163**	**4**	**-**	**875**	**(283)**

31.12.2018 Bank

in RON thousands	Opening balance	Increases due to origination and acquisition	Decreases due to derecognition	Net changes due to change in credit risk	Transfers between Stage 1 and Stages 2/3	Net changes due to modifications without derecognition	Decrease in allowance account due to write-offs	Exchange-rate and other changes (+/-)	Closing balance
Loans and advances to banks									
Stage 1	**(1,773)**	**(3,806)**	**5,389**	**(3,121)**	**1,744**	**4**	**-**	**(35)**	**(1,598)**
Credit institutions	(1,773)	(3,806)	5,389	(3,121)	1,744	4	-	(35)	(1,598)
Stage 2	**-**	**-**	**5**	**(1,376)**	**-**	**-**	**-**	**6**	**(1,365)**
Credit institutions	-	-	5	(1,376)	-	-	-	6	(1,365)
Total	**(1,773)**	**(3,806)**	**5,394**	**(4,497)**	**1,744**	**4**	**-**	**(29)**	**(2,963)**

The movements in allowances for financial assets at amortised cost – loans and advances to customers are presented below:

31.12.2018 Group

in RON thousands	Opening balance	Increases due to origination and acquisition	Decreases due to derecognition	Net changes due to change in credit risk	Transfers between Stage 1 and Stages 2/3	Net changes due to modifications without derecognition	Decrease in allowance account due to write-offs	Exchange-rate and other changes (+/-)	Closing balance
Loans and advances to customers									
Stage 1	**(126,872)**	**(63,669)**	**26,390**	**12,018**	**27,993**	**298**	**-**	**(13)**	**(123,855)**
General governments	(1,878)	(645)	132	(326)	422	(2)	-	-	(2,297)
Other financial corporations	(648)	(48)	87	(287)	-	-	-	-	(896)
Non-financial corporations	(74,560)	(36,997)	22,675	(5,927)	17,970	321	-	44	(76,474)
Households	(49,786)	(25,979)	3,496	18,558	9,601	(21)	-	(57)	(44,188)
Stage 2	**(474,531)**	**(2,771)**	**87,923**	**(45,565)**	**(15,527)**	**1,067**	**-**	**(625)**	**(450,029)**
General governments	(85,479)	-	38,359	9,354	(129)	(163)	-	-	(38,058)
Other financial corporations	(2)	-	2	-	-	-	-	-	-
Non-financial corporations	(197,061)	(1,979)	38,977	(70,836)	(7,754)	729	-	(457)	(238,381)
Households	(191,989)	(792)	10,585	15,917	(7,644)	501	-	(168)	(173,590)
Stage 3	**(1,526,590)**	**(1,651)**	**277,197**	**(318,183)**	**(1,392)**	**(1,700)**	**290,337**	**(1,683)**	**(1,283,665)**
General governments	(4,788)	-	683	(4,652)	-	(26)	-	-	(8,783)
Other financial corporations	(15,304)	-	3	2,570	-	-	-	(14)	(12,745)
Non-financial corporations	(689,750)	(426)	188,180	(190,454)	(399)	(160)	179,267	(1,184)	(514,926)
Households	(816,748)	(1,225)	88,331	(125,647)	(993)	(1,514)	111,070	(485)	(747,211)
POCI	**(283,203)**	**-**	**93,667**	**(58,515)**	**-**	**3,268**	**33,034**	**(1,781)**	**(213,530)**
General governments	(2,041)	-	-	1,556	-	-	-	-	(485)
Non-financial corporations	(97,920)	-	83,963	(47,416)	-	70	1,690	(1,589)	(61,202)
Households	(183,242)	-	9,704	(12,655)	-	3,198	31,344	(192)	(151,843)
Total	**(2,411,196)**	**(68,091)**	**485,177**	**(410,245)**	**11,074**	**2,933**	**323,371**	**(4,102)**	**(2,071,079)**

26. Financial assets at amortised cost under IFRS 9 *(continued)*

31.12.2018 Bank

in RON thousands	Opening balance	Increases due to origination and acquisition	Decreases due to derecognition	Net changes due to change in credit risk	Transfers between Stage 1 and Stages 2/3	Net changes due to modifications without derecognition	Decrease in allowance account due to write-offs	Exchange-rate and other changes (+/-)	Closing balance
Loans and advances to customers									
Stage 1	**(118,779)**	**(56,761)**	**26,386**	**6,869**	**24,391**	**159**	**-**	**(162)**	**(117,897)**
General governments	(1,878)	(645)	132	(326)	422	(2)	-	-	(2,297)
Other financial corporations	(644)	(43)	87	(790)	-	-	-	-	(1,390)
Non-financial corporations	(67,181)	(30,516)	22,671	(10,346)	14,453	321	-	(142)	(70,740)
Households	(49,076)	(25,557)	3,496	18,331	9,516	(160)	-	(20)	(43,470)
Stage 2	**(473,009)**	**(2,572)**	**87,921**	**(49,873)**	**(10,771)**	**1,064**	**-**	**(343)**	**(447,583)**
General governments	(85,479)	-	38,359	9,354	(129)	(163)	-	-	(38,058)
Other financial corporations	(2)	-	2	-	-	-	-	-	-
Non-financial corporations	(195,829)	(1,781)	38,975	(74,944)	(3,059)	729	-	(154)	(236,063)
Households	(191,699)	(791)	10,585	15,717	(7,583)	498	-	(189)	(173,462)
Stage 3	**(1,396,909)**	**(1,518)**	**277,197**	**(319,389)**	**(514)**	**(1,895)**	**242,698**	**(1,552)**	**(1,201,882)**
General governments	(4,788)	-	683	(4,652)	-	(26)	-	-	(8,783)
Other financial corporations	(15,304)	-	3	2,570	(1)	-	-	(13)	(12,745)
Non-financial corporations	(654,938)	(426)	188,180	(184,935)	(2)	(159)	157,360	(1,086)	(496,006)
Households	(721,879)	(1,092)	88,331	(132,372)	(511)	(1,710)	85,338	(453)	(684,348)
POCI	**(283,182)**	**-**	**93,667**	**(58,504)**	**-**	**3,268**	**33,034**	**(1,781)**	**(213,498)**
General governments	(2,041)	-	-	1,556	-	-	-	-	(485)
Non-financial corporations	(97,920)	-	83,963	(47,416)	-	70	1,690	(1,589)	(61,202)
Households	(183,221)	-	9,704	(12,644)	-	3,198	31,344	(192)	(151,811)
Total	**(2,271,879)**	**(60,851)**	**485,171**	**(420,897)**	**13,106**	**2,596**	**275,732**	**(3,838)**	**(1,980,860)**

In the column 'Increases due to origination and acquisitaion' increases of CLA due to the initial recognition of loans and advances to customers at AC during the current reporting period are disclosed. Releases of CLA following the derecognition of the related loans and advances to customers at AC are reported in column 'Decreases due to derecongnition'. In the column 'Transfers between Stage 1 and Stages 2/3' CLA net changes due to changes in credit risk that triggered re-assignments of the related AC loans and advances to customers from Stage 1 at 1 January 2018 (or initial recognition date, if later) to Stages 2 or 3 at 31 December 2018 or vice-versa are reported. The effects of transfers from Stage 1 to Stages 2 or 3 on the related CLAs are adverse (incremental year-on-year allocations) and presented in lines attributable to Stages 2 or 3. The effects of transfers from Stages 2 or 3 to Stage 1 on the related CLAs are favourable (incremental year-on-year releases) and presented in the line 'Stage 1'. The P&L-neutral effect from cross-stage transferring of the related CLA amounts recognized prior to stage re-assignments are presented above in the column 'Net changes due to modifications without derecognition'. This column also captures the passage-of-time adverse effect ('unwinding correction') over the lifetime expected cash shortfalls of AC loans and advances to customers that were assigned to Stage 3 for any period throughout the year, as well as of any POCI loans and advances to customers, in amount of RON 88,048 thousands cumulatively for the year 2018. The column 'Net changes due to modifications without derecognition (net)' reflects the effect on CLA arising from contractual modifications of loans and advances to customers at AC which do not trigger their full derecognition. The use of CLA triggered by full or partial write-offs of AC loans and advances to customers is reported in columns 'Write-offs'.

Transfers between impairment stages (gross exposures) for loans and advances to customers are presented below:

31.12.2018 Group

	Transfers between Stage 1 and Stage 2		Transfers between Stage 2 and Stage 3		Transfers between Stage 1 and Stage 3		POCI	
in RON thousands	To Stage 2 from Stage 1	To Stage 1 from Stage 2	To Stage 3 from Stage 2	To Stage 2 from Stage 3	To Stage 3 from Stage 1	To Stage 1 from Stage 3	To Defaulted from Non-Defaulted	To Non-Defaulted from Defaulted
General governments	466,713	128,110	6,660	2,157	-	-	-	-
Other financial corporations	24	-	-	-	-	-	-	-
Non-financial corporations	807,882	238,171	113,109	1,674	73,384	113	-	65
Households	579,638	443,029	89,948	17,099	98,623	41,918	3,762	10,196
Total	**1,854,257**	**809,310**	**209,717**	**20,930**	**172,007**	**42,031**	**3,762**	**10,261**

26. Financial assets at amortised cost under IFRS 9 *(continued)*

							31.12.2018	Bank
	Transfers between Stage 1 and Stage 2		Transfers between Stage 2 and Stage 3		Transfers between Stage 1 and Stage 3		POCI	
in RON thousands	To Stage 2 from Stage 1	To Stage 1 from Stage 2	To Stage 3 from Stage 2	To Stage 2 from Stage 3	To Stage 3 from Stage 1	To Stage 1 from Stage 3	To Defaulted from Non-Defaulted	To Non-Defaulted from Defaulted
General governments	466,713	128,110	6,660	2,157	-	-	-	-
Other financial corporations	-	-	-	-	-	-	-	-
Non-financial corporations	712,130	208,485	104,265	873	69,700	39	-	65
Households	576,281	440,275	89,562	17,084	97,794	41,535	3,762	10,196
Total	**1,755,124**	**776,870**	**200,487**	**20,114**	**167,494**	**41,574**	**3,762**	**10,261**

In 2018 and 2017 the Group derecognized a part of non-performing loan portfolio, as follows:

				Group
in RON thousands	**31.12.2018**		**31.12.2017**	
Transfer of loans	**Gross carrying amount**	**Related allowance**	**Gross carrying amount**	**Related allowance**
Sale on balance loans	132,370	117,300	112,000	97,164
Write off on balance loans	378,738	338,754	881,398	881,398
Sales from previously writen off loans	59	59	26,363	26,363
Total exposure reduction from sale and write offs	**511,167**	**456,113**	**1,019,761**	**1,004,926**

				Bank
in RON thousands	**31.12.2018**		**31.12.2017**	
Transfer of loans	**Gross carrying amount**	**Related allowance**	**Gross carrying amount**	**Related allowance**
Sale on balance loans	132,370	117,300	110,054	95,556
Write off on balance loans	280,399	280,399	845,547	845,547
Sales from previously writen off loans	59	59	25,275	25,275
Total exposure reduction from sale and write offs	**412,828**	**397,758**	**980,876**	**966,378**

Note: The write-offs include also amounts presented in category Trade and other receivables.

During 2018, BCR Group has realized four main sales of non-performing loans portfolios:

1) Retail loans in amount of RON equivalent 65,570 thousands (Dec-18)
2) Corporate loans in amount of RON equivalent 17,267 thousands (Apr-18)
3) Corporate loans in amount of RON equivalent 21,293 thousands (Aug-18)
4) Corporate loans in amount of RON equivalent 18,362 thousands (Dec-18)

The rest up to RON 132,429 thousands total sales represent individual corporate loans in amount of RON equivalent 9,880 thousands.

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.

Total reduction in net exposure due to sales and write offs was in amount of RON 55,054 thousands for the Group (2017: RON 14,836 thousands) and RON 15,070 thousands for the Bank (2017: RON 14,498 thousands). The net proceeds from disposal were of RON 47,732 thousands for the Group (2017:41,588 RON thousands) and RON 47,732 thousands for the Bank (2017: 41,362 RON thousands).

27. Finance lease receivables

31.12.2018 Group

in RON thousands	Gross carrying amount					Credit loss allowances					Carrying amount
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	
General governments	693	34	-	-	727	-	-	-	-	-	727
Other financial corporations	14,965	723	114	-	15,802	(214)	(35)	(88)	-	(337)	15,465
Non-financial corporations	902,915	44,975	19,955	-	967,845	(11,389)	(1,762)	(7,747)	-	(20,898)	946,947
Households	23,446	4,845	171	-	28,462	(352)	(275)	(106)	-	(733)	27,729
Total	**942,019**	**50,577**	**20,240**	**-**	**1,012,836**	**(11,955)**	**(2,072)**	**(7,941)**	**-**	**(21,968)**	**990,868**

The movements in allowances for financial assets at amortised cost – finance lease are presented below:

31.12.2018 Group

in RON thousands	Opening balance	Increases due to origination and acquisition	Decreases due to derecognition	Net changes due to change in credit risk	Transfers between Stage 1 and Stages 2/3	Net changes due to modifications without derecognition	Decrease in allowance account due to write-offs	Exchange-rate and other changes (+/-)	Closing balance
Stage 1	**(11,393)**	**(6,794)**	**729**	**(1,258)**	**6,664**	**-**	**-**	**97**	**(11,955)**
Other financial corporations	(61)	(177)	-	21	3	-	-	-	(214)
Non-financial corporations	(11,018)	(6,406)	716	(1,317)	6,539	-	-	97	(11,389)
Households	(314)	(211)	13	38	122	-	-	-	(352)
Stage 2	**(2,122)**	**(352)**	**79**	**2,672**	**(2,349)**	**-**	**-**	**-**	**(2,072)**
Other financial corporations	(10)	(38)	1	15	(3)	-	-	-	(35)
Non-financial corporations	(1,808)	(299)	78	2,603	(2,336)	-	-	-	(1,762)
Households	(304)	(15)	-	54	(10)	-	-	-	(275)
Stage 3	**(13,107)**	**(446)**	**290**	**(2,840)**	**(903)**	**-**	**9,065**	**-**	**(7,941)**
Other financial corporations	(127)	-	-	39	-	-	-	-	(88)
Non-financial corporations	(12,936)	(348)	290	(2,997)	(819)	-	9,063	-	(7,747)
Households	(44)	(98)	-	118	(84)	-	2	-	(106)
Total	**(26,622)**	**(7,592)**	**1,098**	**(1,426)**	**3,412**	**-**	**9,065**	**97**	**(21,968)**

28. Trade and other receivables

31.12.2018 Group

in RON thousands	Gross carrying amount					Credit loss allowances					Carrying amount
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	
General governments	25,567	324	30	20	25,941	(28)	(11)	(30)	(20)	(89)	25,852
Credit institutions	72,511	10	7	-	72,528	(51)	-	(5)	-	(56)	72,472
Other financial corporations	41,084	111	4,703	-	45,898	(25)	(4)	(2,851)	-	(2,880)	43,018
Non-financial corporations	297,432	101,298	105,690	3,325	507,745	(3,274)	(14,049)	(103,068)	(3,118)	(123,509)	384,236
Households	31,668	6,113	4,626	423	42,830	(101)	(288)	(4,591)	(414)	(5,394)	37,436
Total	**468,262**	**107,856**	**115,056**	**3,768**	**694,942**	**(3,479)**	**(14,352)**	**(110,545)**	**(3,552)**	**(131,928)**	**563,014**

31.12.2018 Bank

in RON thousands	Gross carrying amount					Credit loss allowances					Carrying amount
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	
General governments	25,567	321	30	20	25,938	(28)	(11)	(30)	(20)	(89)	25,849
Credit institutions	72,668	21	7	-	72,696	(51)	(1)	(5)	-	(57)	72,639
Other financial corporations	41,076	107	4,472	-	45,655	(25)	(4)	(2,620)	-	(2,649)	43,006
Non-financial corporations	281,501	99,564	91,881	3,325	476,271	(3,176)	(13,934)	(91,705)	(3,118)	(111,933)	364,338
Households	31,605	6,085	4,475	423	42,588	(100)	(287)	(4,440)	(414)	(5,241)	37,347
Total	**452,417**	**106,098**	**100,865**	**3,768**	**663,148**	**(3,380)**	**(14,237)**	**(98,800)**	**(3,552)**	**(119,969)**	**543,179**

28. Trade and other receivables *(continued)*

The movements in allowances for financial assets at amortised cost – trade and other receivable are presented below:

31.12.2018 Group

in RON thousands	Opening balance	Increases due to origination and acquisition	Decreases due to derecognition	Net changes due to change in credit risk	Transfers between Stage 1 and Stages 2/3	Net changes due to modifications without derecognition	Decrease in allowance account due to write-offs	Exchange-rate and other changes (+/-)	Closing balance
Stage 1	**(2,938)**	**(2,705)**	**555**	**(59)**	**1,502**	**-**	**-**	**166**	**(3,479)**
General governments	(32)	(26)	40	(10)	-	-	-	-	(28)
Credit institutions	-	(113)	50	12	-	-	-	-	(51)
Other financial corporations	(20)	(1)	1	(5)	-	-	-	-	(25)
Non-financial corporations	(2,574)	(2,530)	398	24	1,492	-	-	(84)	(3,274)
Households	(312)	(35)	66	(80)	10	-	-	250	(101)
Stage 2	**(31,839)**	**(565)**	**1,466**	**19,861**	**(3,336)**	**-**	**-**	**61**	**(14,352)**
General governments	(15)	-	8	(54)	-	-	-	50	(11)
Other financial corporations	(6)	-	3	229	(230)	-	-	-	(4)
Non-financial corporations	(31,372)	(500)	1,138	19,713	(3,039)	-	-	11	(14,049)
Households	(446)	(65)	317	(27)	(67)	-	-	-	(288)
Stage 3	**(55,426)**	**(344)**	**7,170**	**(67,474)**	**(307)**	**-**	**6,065**	**(229)**	**(110,545)**
General governments	(26)	(25)	26	(5)	-	-	-	-	(30)
Credit institutions	-	(5)	-	-	-	-	-	-	(5)
Other financial corporations	(5,732)	-	1	2,884	-	-	-	(4)	(2,851)
Non-financial corporations	(44,673)	(232)	7,068	(69,656)	(277)	-	4,923	(221)	(103,068)
Households	(4,995)	(82)	75	(697)	(30)	-	1,142	(4)	(4,591)
POCI	**(3,278)**	**-**	**283**	**(755)**	**-**	**-**	**253**	**(55)**	**(3,552)**
General governments	(24)	-	6	(2)	-	-	-	-	(20)
Non-financial corporations	(2,059)	-	57	(1,237)	-	-	176	(55)	(3,118)
Households	(1,192)	-	215	486	-	-	77	-	(414)
Total	**(93,481)**	**(3,614)**	**9,474**	**(48,427)**	**(2,141)**	**-**	**6,318**	**(57)**	**(131,928)**

31.12.2018 Bank

in RON thousands	Opening balance	Increases due to origination and acquisition	Decreases due to derecognition	Net changes due to change in credit risk	Transfers between Stage 1 and Stages 2/3	Net changes due to modifications without derecognition	Decrease in allowance account due to write-offs	Exchange-rate and other changes (+/-)	Closing balance
Stage 1	**(2,474)**	**(2,654)**	**547**	**458**	**743**	**-**	**-**	**-**	**(3,380)**
General governments	(32)	(26)	40	(11)	1	-	-	-	(28)
Credit institutions	-	(113)	50	12	-	-	-	-	(51)
Other financial corporations	(20)	(1)	1	(5)	-	-	-	-	(25)
Non-financial corporations	(2,361)	(2,487)	390	540	742	-	-	-	(3,176)
Households	(61)	(27)	66	(78)	-	-	-	-	(100)
Stage 2	**(31,706)**	**(564)**	**1,465**	**16,844**	**(266)**	**-**	**-**	**(10)**	**(14,237)**
General governments	(15)	-	8	(4)	-	-	-	-	(11)
Credit institutions	-	-	-	(1)	-	-	-	-	(1)
Other financial corporations	(6)	-	3	(1)	-	-	-	-	(4)
Non-financial corporations	(31,239)	(499)	1,137	16,882	(205)	-	-	(10)	(13,934)
Households	(446)	(65)	317	(32)	(61)	-	-	-	(287)
Stage 3	**(48,771)**	**(342)**	**7,151**	**(61,073)**	**(31)**	**-**	**4,414**	**(148)**	**(98,800)**
General governments	(26)	(25)	25	(4)	-	-	-	-	(30)
Credit institutions	-	(5)	-	-	-	-	-	-	(5)
Other financial corporations	(5,732)	-	1	3,111	-	-	-	-	(2,620)
Non-financial corporations	(38,025)	(230)	7,050	(63,622)	(2)	-	3,272	(148)	(91,705)
Households	(4,988)	(82)	75	(558)	(29)	-	1,142	-	(4,440)
POCI	**(3,278)**	**-**	**282**	**(755)**	**1**	**-**	**253**	**(55)**	**(3,552)**
General governments	(24)	-	7	(3)	-	-	-	-	(20)
Other financial corporations	(3)	-	4	(2)	1	-	-	-	-
Non-financial corporations	(2,059)	-	57	(1,237)	-	-	176	(55)	(3,118)
Households	(1,192)	-	214	487	-	-	77	-	(414)
Total	**(86,229)**	**(3,560)**	**9,445**	**(44,526)**	**447**	**-**	**4,667**	**(213)**	**(119,969)**

29. Investments in joint ventures and 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	2018	2017
Financial institutions	20,027	17,375
Total	**20,027**	**17,375**

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

in RON thousands	2018	2017
Total assets	753,719	727,918
Total liabilities	693,634	675,788
Total equity	**60,086**	**52,130**
Proportional of the Group's ownership	33.33%	33.33%
Carying amount of the investment	**20,027**	**17,375**

in RON thousands	2018	2017
Income	24,492	15,255
Expenses	(14,502)	(12,639)
Profit before tax	**9,990**	**2,616**
Income tax expenses	(2,037)	(194)
Profit/loss	**7,953**	**2,422**
Proportional of the Group's ownership	33.33%	33.33%
Group's share of profit for the year	**2,651**	**807**

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

30. Property, equipment and investment properties

						Group
	Property and equipment - Acquisition and production costs					
in RON thousands	Land and buildings	Office and equipment / other fixed assets	IT assets (hardware)	Movable other property	Total property and equipment	Investment properties
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)	(83,416)	(143,807)	(613)
Reclassification (+/-)	(173,108)	(42,927)	52,680	(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**	**599,203**	**237,273**	**385,160**	**2,479,873**	**178,068**
Balance as of 01.01.2018	**1,258,237**	**599,203**	**237,273**	**385,160**	**2,479,873**	**178,068**
Additions in current year (+)	19,595	50,946	23,580	337,008	431,129	344
Disposals and write off (-)	(23,285)	(148,851)	(3,303)	(185,302)	(360,741)	(24,052)
Reclassification (+/-)	(136,579)	(4,671)	(462)	3,425	(138,287)	138,286
Assets held for sale (-)	(285,964)	-	-	-	(285,964)	(25,409)
Currency translation (+/-)	25	373	238	-	636	-
Balance as of 31.12.2018	**832,029**	**497,000**	**257,326**	**540,291**	**2,126,646**	**267,237**

						Group
	Property and equipment - Accumulated depreciation					
in RON thousands	Land and buildings	Office and equipment / other fixed assets	IT assets (hardware)	Movable other property	Total property and equipment	Investment properties
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)	-	(3,185)	(20,137)	-
Reversal of impairment (+)	122	-	-	75	197	-
Reclassification (+/-)	55,495	(283)	88	543	55,844	(56,579)
Assets held for sale (+)	1,038	18,565	803	-	20,406	-
Currency translation (+/-)	(5)	(225)	(219)	-	(450)	-
Balance as of 31.12.2017	**(407,220)**	**(489,373)**	**(159,066)**	**(108,531)**	**(1,164,190)**	**(56,578)**
Balance as of 01.01.2018	**(407,220)**	**(489,373)**	**(159,066)**	**(108,531)**	**(1,164,190)**	**(56,578)**
Amortisation and depreciation (-)	(34,995)	(38,066)	(10,950)	(48,796)	(132,807)	(3,722)
Disposals (+)	5,798	144,905	2,869	11,853	165,425	5,978
Impairment (-)	(71,282)	(103)	(95)	(63)	(71,543)	(13,633)
Reversal of impairment (+)	2,415	-	-	1,450	3,865	4,921
Reclassification (+/-)	49,799	40,995	(39,088)	(1,908)	49,798	(49,799)
Assets held for sale (+)	192,529	-	-	-	192,529	8,402
Currency translation (+/-)	(5)	(242)	(216)	-	(463)	-
Balance as of 31.12.2018	**(262,961)**	**(341,884)**	**(206,546)**	**(145,995)**	**(957,386)**	**(104,431)**

						Group
	Property and equipment net					
in RON thousands	Land and buildings	Office and equipment / other fixed assets	IT assets (hardware)	Movable other property	Total property and equipment	Investment properties
Balance as of 31.12.2017	**851,017**	**109,830**	**78,207**	**276,629**	**1,315,683**	**121,490**
Balance as of 31.12.2018	**569,068**	**155,116**	**50,780**	**394,296**	**1,169,260**	**162,806**

30. Property, equipment and investment properties *(continued)*

						Bank
	Property and equipment - Acquisition and production costs					
in RON thousands	**Land and buildings**	**Office and equipment / other fixed assets**	**IT assets (hardware)**	**Movable other property**	**Total property and equipment**	**Investment properties**
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)	(52,607)	52,676	-	**(173,039)**	173,107
Balance as of 31.12.2017	**1,248,641**	**578,436**	**227,839**	**-**	**2,054,916**	**178,068**
Balance as of 01.01.2018	**1,248,641**	**578,436**	**227,839**	**-**	**2,054,916**	**178,068**
Additions in current year (+)	17,576	38,895	22,430	-	**78,901**	344
Disposals and write off (-)	(13,039)	(143,415)	(2,796)	-	**(159,250)**	(24,052)
Reclassification (+/-)	(136,579)	(4,672)	(461)	3,425	**(138,287)**	138,286
Assets held for sale (-)	(285,964)	-	-		**(285,964)**	(25,409)
Balance as of 31.12.2018	**830,635**	**469,244**	**247,012**	**3,425**	**1,550,316**	**267,237**

						Bank
	Property and equipment - Accumulated depreciation					
in RON thousands	**Land and buildings**	**Office and equipment / other fixed assets**	**IT assets (hardware)**	**Movable other property**	**Total property and equipment**	**Investment properties**
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)
Balance as of 31.12.2017	**(405,289)**	**(482,248)**	**(151,391)**	**-**	**(1,038,928)**	**(56,578)**
Balance as of 01.01.2018	**(405,289)**	**(482,248)**	**(151,391)**	**-**	**(1,038,928)**	**(56,578)**
Amortisation and depreciation (-)	(34,227)	(30,633)	(9,876)	-	(74,736)	(3,722)
Disposals (+)	4,003	143,933	2,796	-	150,732	5,978
Impairment (-)	(71,282)	(103)	(95)	-	(71,480)	(13,633)
Reversal of impairment (+)	2,415	-	-	-	2,415	4,921
Reclassification (+/-)	49,799	42,177	(38,983)	(3,194)	49,799	(49,799)
Assets held for sale (+)	192,529	-	-	-	192,529	8,402
Balance as of 31.12.2018	**(262,052)**	**(326,874)**	**(197,549)**	**(3,194)**	**(789,669)**	**(104,431)**

						Bank
	Property and equipment net					
in RON thousands	**Land and buildings**	**Office and equipment / other fixed assets**	**IT assets (hardware)**	**Movable other property**	**Total property and equipment**	**Investment properties**
Balance as of 31.12.2017	**843,352**	**96,188**	**76,448**	**-**	**1,015,988**	**121,490**
Balance as of 31.12.2018	**568,583**	**142,370**	**49,463**	**231**	**760,647**	**162,806**

There are no fixed assets pledged as collateral as at 31 December 2018 and 31 December 2017.

The total cost of the Group's tangible fixed assets in use and fully amortized at the end of 2018 was RON 475,150 thousands (2017: RON 575,573 thousands). The total cost of the Bank's tangible fixed assets in use and fully amortized at the end of 2018 was RON 467,031 thousands (2017: RON 574,484 thousands).

The investment properties are presented at cost and as at 31 December 2018 the fair value is RON 199,167 thousands. Fair values are determined based on an annual evaluation performed by an accredited external independent valuator. Please refer to note 48 for fair value disclosure.

Assets under construction are in amount of RON 81,215 thousands (2017: RON 82,079 thousands) for the Bank.

31. Intangible assets

				Group
	Intangible assets - Acquisition and production costs			
in RON thousands	Software acquired	Self-developed software within the Group	Others (licenses, patents, etc.)	Total
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)
Reclassification (+/-)	(2,898)	3,531	(131)	502
Assets held for sale (-)	(3,677)	-	-	(3,677)
Currency translation (+/-)	199	-		199
Balance as of 31.12.2017	**820,549**	**124,748**	**361**	**945,658**
Balance as of 01.01.2018	**820,549**	**124,748**	**361**	**945,658**
Additions in current year (+)	105,029	18,072	-	123,101
Disposals and write off (-)	(36,911)	(84)	-	(36,995)
Reclassification (+/-)	(208,955)	(7,086)	216,041	-
Currency translation (+/-)	226	-	-	226
Balance as of 31.12.2018	**679,938**	**135,650**	**216,402**	**1,031,990**

				Group
	Intangible assets - Accumulated amortisation			
in RON thousands	Software acquired	Self-developed software within the Group	Others (licenses, patents, etc.)	Total
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)	131	208
Assets held for sale (-)	1,335	-	-	1,335
Currency translation (+/-)	(146)	-	-	(145)
Balance as of 31.12.2017	**(554,077)**	**(70,348)**	**(361)**	**(624,786)**
Balance as of 01.01.2018	**(554,077)**	**(70,348)**	**(361)**	**(624,786)**
Amortisation and depreciation (-)	(53,178)	(8,194)	-	(61,372)
Disposals and write off (-)	34,385	84	-	34,469
Impairment (-)	(18,162)	(84)	-	(18,246)
Reclassification (+/-)	197,120	-	(197,120)	-
Currency translation (+/-)	(157)	-	-	(157)
Balance as of 31.12.2018	**(394,069)**	**(78,542)**	**(197,481)**	**(670,092)**

				Group
	Intangible assets net			
in RON thousands	Software acquired	Self-developed software within the Group	Others (licenses, patents, etc.)	Total
Balance as of 31.12.2017	**266,472**	**54,400**	**-**	**320,872**
Balance as of 31.12.2018	**285,869**	**57,108**	**18,921**	**361,898**

31. Intangible assets *(continued)*

Bank				
	Intangible assets - Acquisition and production costs			
in RON thousands	Software acquired	Self-developed software within the Group	Others (licenses, patents, etc.)	Total
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)	3,533		**(70)**
Balance as of 31.12.2017	**793,915**	**124,748**	**-**	**918,663**
Balance as of 01.01.2018	**793,915**	**124,748**	**-**	**918,663**
Additions in current year (+)	98,570	18,072	-	**116,642**
Disposals and write off (-)	(34,904)	(84)	-	**(34,988)**
Reclassification (+/-)	(208,956)	(7,086)	216,042	**-**
Balance as of 31.12.2018	**648,625**	**135,650**	**216,042**	**1,000,317**

Bank				
	Intangible assets - Accumulated amortisation			
in RON thousands	Software acquired	Self-developed software within the Group	Others (licenses, patents, etc.)	Total
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)**
Balance as of 01.01.2018	**(534,084)**	**(70,348)**	**-**	**(604,432)**
Amortisation and depreciation (-)	(49,586)	(8,194)	-	**(57,780)**
Disposals and write off (-)	34,077	84	-	**34,161**
Impairment (-)	(18,162)	(84)	-	**(18,246)**
Reclassification (+/-)	197,120	-	(197,120)	**-**
Balance as of 31.12.2018	**(370,635)**	**(78,542)**	**(197,120)**	**(646,297)**

Bank				
	Intangible assets net			
in RON thousands	Software acquired	Self-developed software within the Group	Others (licenses, patents, etc.)	Total
Balance as of 31.12.2017	**259,831**	**54,400**	**-**	**314,231**
Balance as of 31.12.2018	**277,990**	**57,108**	**18,922**	**354,020**

Note: The reclassification was done in order to present the licenses in a different category with distinct features from software (the amortisation period is done over the period of the usage right).

The total cost of the Group's intangible fixed assets in use and fully amortized at the end of 2018 was RON 374,947 thousands (2017: RON 378,400 thousands). The total cost of the Bank's intangible fixed assets in use and fully amortized at the end of 2018 was RON 363,080 thousands (2017: RON 373,137 thousands).

Assets under construction are in amount of RON 75,947 thousands (2017: RON 124,263 thousands) for the Bank and represent various software developments.

32. Tax assets and liabilities

				31.12.2018		Group
				Net variance 2018		
in RON thousands	Tax assets 2018	Tax assets 2017 restated*	Tax liabilities 2018	Total	Through profit or loss	Through other comprehensive income
Temporary differences relate to the following items:						
Financial assets at fair value through other comprehensive income	(11,788)	(49,744)	-	37,963	-	37,963
Property and equipment (useful life in tax law different)	47,352	24,524	-	22,828	22,828	-
Amortisation of investments in subsidiaries (tax-effective in subsequent years)	(267)	(267)	-	-	-	-
Long-term employee provisions (tax valuation different)	(13,115)	(13,085)	-	(30)	22	(52)
Other provisions (tax valuation different)	185,415	177,986	-	7,429	7,429	-
Tax loss carry-forward	2,924	3,072	-	(148)	(148)	-
Intangible assets	(19,313)	(2,030)	-	(17,283)	(17,283)	-
Other	10,957	21,990	-	(11,033)	(11,033)	-
Total deferred taxes	**202,165**	**162,446**	**-**	**39,726**	**1,815**	**37,911**
Total current taxes	**181,800**	**86,736**	**(97,782)**	**(228,034)**	**(228,034)**	**-**
Total taxes	**383,965**	**249,182**	**(97,782)**	**(188,308)**	**(226,219)**	**37,911**

				31.12.2018		Bank
				Net variance 2018		
in RON thousands	Tax assets 2018	Tax assets 2017 restated*	Tax liabilities 2018	Total	Through profit or loss	Through other comprehensive income
Temporary differences relate to the following items:						
Financial assets at fair value through other comprehensive income	(11,790)	(49,737)	-	37,947	-	37,947
Property and equipment (useful life in tax law different)	48,636	25,579	-	23,057	23,057	-
Amortisation of investments in subsidiaries (tax-effective in subsequent years)	(267)	(267)	-	-	-	-
Long-term employee provisions (tax valuation different)	(13,261)	(13,207)	-	(54)	-	(54)
Other provisions (tax valuation different)	192,949	191,424	-	1,525	1,525	-
Intangible assets	(19,206)	(1,923)	-	(17,283)	(17,283)	-
Total deferred taxes	**197,061**	**151,869**	**-**	**45,192**	**7,299**	**37,893**
Total current taxes	**178,822**	**83,435**	**(97,110)**	**(227,407)**	**(227,407)**	**-**
Total taxes	**375,883**	**235,304**	**(97,110)**	**(182,215)**	**(220,108)**	**37,893**

*Please refer to Accounting policies 2.3 point (iv) Deferred tax effects upon transition to IFRS 9.

33. 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 BCR's Management Board maintained the commitment to sale the investment. The sale process was re-launched in 2018 with target to complete de transaction by mid of 2019.

The major classes of assets and liabilities related to CIT One disposal group are presented below:

in RON thousands	2018	2017
Major classes of assets part of the disposal group held for sale are as follows:		
Loans and advances		1,719
Financial assets at amortised cost	5,064	
Property and equipment	40,305	35,482
Land and Buildings (used by the Group)	4,932	3,621
Office and plant equipment / other fixed assets	35,149	31,383
IT assets (Hardware)	224	478
Intangible assets	2,063	2,342
Deferred tax assets	1,500	1,049
Other assets	3,239	2,012
Total assets	**52,171**	**42,604**
Major classes of liabilities directly associated with disposal group held for sale are as follows:		
Other financial liabilities	(7,807)	(5,981)
Provisions	(4,397)	(2,149)
Other Liabilities	(3,234)	(4,689)
Total liabilities	**(15,438)**	**(12,819)**
Net assets	**36,733**	**29,687**

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

34. Investments in subsidiaries and other assets

	Group		Bank	
in RON thousands	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**
Accrued income	82,400	45,928	12,991	8,590
Inventories (i)	112,940	144,537	94,586	118,735
Sundry assets	80,162	114,792	41,100	30,570
Other assets	**275,502**	**305,257**	**148,677**	**157,895**
Subsidiaries (ii)	-	-	**403,152**	**533,510**
Total Investments in subsidiaries and other assets	**275,502**	**305,257**	**551,829**	**691,405**

(i) Under this position the major part is represented by 'Repossessed Assets', which amounts to net of RON 93,361 thousands (2017: RON 118,735 thousands) for the Bank and RON 18,260 thousands (2017: RON 25,801 thousands) for subsidiaries. Write down of repossessed assets in amount of RON 122,366 thousands (2017: RON 141,454 thousands) for the Group and RON 102,850 thousands (2017: RON 115,196 thousands) for the Bank was booked as a result of comparing carrying amount with net realizable value.
During 2018 a part of the repossessed assets was sold. The selling price in amount of RON 41,583 thousands (2017: RON 18,983 thousands) was booked as other operating income and the NBV in amount of RON 24,918 thousands (2017: RON 19,283 thousands) was recorded as other operating expenses.

(ii) The Bank's investments in subsidiaries and other companies are in amount of RON 403,152 thousands (2017: RON 533,510 thousands). There is no active market for these investments and the Bank intends to hold them for the long term.

The movement in Subsidiaries' balance is presented below:

	Bank
in RON thousands	
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**
Balance as of 01.01.2018	**533,510**
Contribution to increase in share capital	30,000
Impairment of subsidiaries	(160,358)
Balance as of 31.12.2018	**403,152**

At 31 December 2018, the allocation of impairment for investments in subsidiaries was in amount of RON (166,410) thousands, consisting of RON (171,649) thousands increase in impairment for BCR Banca pentru Locuinte and BCR Pensii, Societatea de Administrare a Fondurilor de Pensii Private SA, and RON 11,292 thousands impairment reversal for BCR Chisinau. The investment in CIT One is classified in the category 'Non-current assets and disposal groups classified as held for sale', for which was recorded an increase of impairment in amount of RON 6,052 thousands (presented in OOR).

The impairment booked at the Bank level for Subsidiaries is presented below:

in RON thousands	**2018**	**2017**
Suport Colect SRL	(983,047)	(983,047)
BCR Leasing IFN SA	(199,219)	(199,218)
BCR Chisinau SA	(148,890)	(160,182)
BCR Banca pentru Locuinte SA	(108,078)	(46,445)
BCR Fond de Pensii	(110,015)	-
Total	**(1,549,249)**	**(1,388,892)**

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).

34. Investments in subsidiaries and other assets *(continued)*

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 – used for Banca pentru Locuinte and BCR Chisinau.
- 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 – used for CIT One.
- Income approach – the value of the company is considered the present value of its future income statement – used for BCR Pensii, BCR Payments, BCR Leasing.

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

The impairment for BCR Pensii is mainly due to entering in force of the Ordinance 114/2018 which brings amendments and supplements to Law no. 411/2004 regarding the private pension funds republished as follows:

- Contributors to privately managed pension funds may now opt to transfer their contributions from 2019 onward to the public pensions system (Pillar 1) if they at least 5 years tenors, while all their accumulated net assets up to the transfer date remain in the privately managed pension fund.

- The minimum social capital required to manage a private pension fund has been increased, from a fixed amount (EUR 4 milion) to a percentage of historical participants' contributions. This percentage increases progressively up to maximum of 10% of the value of the historical contributions. For 2019, two deadlines have been set, by which pension funds must prove that they have at least the minimum social capital, 30 June (50% of minimum share capital required) and 31 December 2019 (for full compliance with minimum share capital required).

- The level of management fees that can be charged by private pension fund managers has been significantly reduced. The fee has been reduced from a maximum of 2.5% to maximum 1%, out of which 0.5% will be transferred to the National House of Public Pensions. The maximum monthly commission from the total net assets of the privately managed pension fund, has been set in a range between 0.02% and 0.07% (depending on the rate of return of the fund relative to the inflation rate). (Under the previous rules, the maximum was 0.05%, without any link of investment performance versus inflation rate.)

For the time being there are no norms issued by FSA in relation to the specific basis for capital requirement computation.

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	10%-12%	12%-14%
Foreign subsidiaries	20%	22%

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.

34. Investments in subsidiaries and other assets *(continued)*

Sensitivity to changes in assumptions

in RON thousands	2018	2017
Impact in the Statement of Comprehensive Income: income/ (expense)		
Cost of equity/ Weighted average cost of capital increases by 10%	(31,753)	(36,061)
Cost of equity/ Weighted average cost of capital decreases by 10%	42,107	46,302
Net cash-flows increase by 10%	44,140	45,696
Net cash flows decrease by 10%	(44,627)	(45,696)

35. Financial liabilities measured at amortised cost

Deposits from banks

	Group		Bank	
in RON thousands	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**
Current accounts / overnight deposits	516,812	333,238	435,631	372,547
Term deposits from other banks	1,610,911	2,729,052	1,692,198	2,753,919
Repurchase agreements	-	142,901	949,144	1,053,535
Deposits from banks	**2,127,723**	**3,205,191**	**3,076,973**	**4,180,001**
Borrowings and financing lines	2,408,375	2,249,500	672,249	838,133
Total Borrowings and financing lines	**2,408,375**	**2,249,500**	**672,249**	**838,133**
Subordonated loans	1,041,982	2,371,499	1,041,982	2,371,499
Total	**5,578,080**	**7,826,190**	**4,791,204**	**7,389,633**

Borrowings and financing lines

Maturity of other financing lines is between January 2019 and September 2030, the interest rates are fixed or variable in a range between 0.098%-3.51 %.

Liabilities from financing activities			**Group**
in RON thousands	**Other borrowed funds**	**Subordinated debt**	**Total**
Borrowings at 1 January 2017	**2,177,267**	**2,344,779**	**4,522,046**
Cash flow	72,233	-	72,233
Foreign exchange adjustments	-	26,720	26,720
Borrowings at 31 December 2017	**2,249,500**	**2,371,499**	**4,620,999**
Cash flow	133,139	(1,429,883)	(1,296,744)
Foreign exchange adjustments	(4,437)	928	(3,509)
Other non-cash movements	30,173	99,438	129,611
Borrowings at 31 December 2018	**2,408,375**	**1,041,982**	**3,450,357**

Liabilities from financing activities			**Bank**
in RON thousands	**Other borrowed funds**	**Subordinated debt**	**Total**
Borrowings at 1 January 2017	**1,154,233**	**2,344,779**	**3,499,012**
Cash flow	(316,100)	-	(316,100)
Foreign exchange adjustments	-	26,720	26,720
Borrowings at 31 December 2017	**838,133**	**2,371,499**	**3,209,632**
Cash flow	(173,810)	(1,429,883)	(1,603,693)
Foreign exchange adjustments	(5,393)	928	(4,465)
Other non-cash movements	13,319	99,438	112,757
Borrowings at 31 December 2018	**672,249**	**1,041,982**	**1,714,231**

Subordinated loans

During 2018, two subordinated loans matured:

- RON 550,000 thousands with the maturity date on 10 April 2018;
- RON 780,000 thousands with the maturity date on 12 December 2018.

35. Financial liabilities measured at amortised cost *(continued)*

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, an amendment to the subordinated contract through which the maturity of the loan was prolonged until 30 September 2021 was signed.

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 the remained subordinated loans are between September 2021 and June 2022, the interest rates are variable in a range between 3.7%-5.45% for EUR.

Debt securities issued

	Group		Bank	
in RON thousands	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**
Subordinated issues	-	64,839	-	64,839
Other debt securities issued	349,153	474,809	349,153	474,809
Bonds	349,153	474,809	349,153	474,809
Debt securities issued	**349,153**	**539,648**	**349,153**	**539,648**

During 2018 the subordinated bonds issued by the Bank matured (2017: EUR 11,000 thousands).

Deposits from customers

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

	Group		Bank	
in RON thousands	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**
Overnight deposits	26,962,305	23,056,904	26,847,416	22,955,415
Savings deposits	2,291	1,985	-	-
Households	2,291	1,985	-	-
Non-savings deposits	26,960,014	23,054,919	26,847,416	22,955,415
General governments	1,267,448	1,516,554	1,267,448	1,516,554
Other financial corporations	1,331,707	644,438	1,344,829	562,998
Non-financial corporations	10,242,954	9,092,325	10,150,350	9,092,325
Households	14,117,905	11,801,602	14,084,789	11,783,538
Term deposits	28,136,654	29,439,158	25,746,274	26,929,743
Deposits with agreed maturity	28,136,654	29,439,158	25,746,274	26,929,743
Savings deposits	2,493,030	2,650,999	-	-
Households	2,493,030	2,650,999	-	-
Non-savings deposits	25,643,624	26,788,159	25,746,274	26,929,743
General governments	2,320,084	2,661,135	2,320,084	2,661,135
Other financial corporations	1,036,206	1,190,838	1,148,908	1,275,982
Non-financial corporations	5,190,779	5,990,652	5,180,727	6,047,091
Households	17,096,555	16,945,534	17,096,555	16,945,535
Deposits from customers	**55,098,959**	**52,496,062**	**52,593,690**	**49,885,158**
General governments	3,587,532	4,177,689	3,587,532	4,177,689
Other financial corporations	2,367,913	1,835,276	2,493,737	1,838,980
Non-financial corporations	15,433,733	15,082,977	15,331,077	15,139,416
Households	33,709,781	31,400,120	31,181,344	28,729,073

36. Other financial liabilities

	Group		Bank	
in RON thousands	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**
Intrabanking settlement liabilities	135,257	297,508	135,257	297,508
Settlement liabilities due to clients	215,237	480,042	214,181	478,607
Client accounts for securities transactions	67,048	93,768	67,048	93,768
Financial liabilities - suppliers	149,515	231,360	152,259	194,753
Other financial liabilities	25,559	42,489	24,192	41,908
Total other financial liabilities	**592,616**	**1,145,167**	**592,937**	**1,106,544**

37. Provisions

	Group		Bank	
in RON thousands	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**
Long-term employee provisions	43,702	42,617	43,588	42,503
Pending legal issues (i)	679,672	784,050	647,077	744,220
Commitments and guarantees given	417,102	351,257	418,827	351,158
Provisions for commitments and financial guarantees in Stage 1	24,435		25,731	
Provisions for commitments and financial guarantees in Stage 2	58,420		58,849	
Provisions for commitments and financial guarantees - Defaulted	334,247		334,247	
Provisions for commitments and financial guarantees in Stage 3	329,660		329,660	
Provisions for commitments and financial guarantees - POCI	4,587		4,587	
Provisions for commitments and financial guarantees - defaulted customers		264,423		264,422
Provisions for commitments and financial guarantees - non defaulted customers		86,834		86,736
Other provisions	11,212	14,641	10,763	11,744
Provisions	**1,151,688**	**1,192,565**	**1,120,255**	**1,149,625**

(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. 5 of the initial 10 ANPC litigations are in progress, 3 cases were irrevocably won and other 2 irrevocably lost.

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 2018, the Group recorded provisions for unfair terms included in contracts which contain 'allegedly abusive clauses' and which are not subject to a litigation file as at 31.12.2018 in total amount of RON 467,2 mil (December 2017: RON 661,6 mil). The decrease compared to last year was mainly due to active contracts closing.

Distinctly by the above mentioned provision, the Grooup established a provision for all pending cases having as object individual clients claims regarding allegedly abusive clauses. For individual claims, the Group has established a provision of RON 139.2 mil (December 2017: RON 64,1 mil).

37. Provisions *(continued)*

Sensitivity analysis

Collective Provision for allegedly abusive amounts on Active and closed loans	Group		Bank	
in RON thousands	31.12.2018	31.12.2017	31.12.2018	31.12.2017
1. Show up parameter deviation only				
+10% deviation	46,720	66,162	46,295	65,278
-10% deviation	(46,720)	(66,162)	(46,295)	(65,278)
2. Win-loss parameter deviation only (for interest)	-	-	-	-
+10% deviation	(44,933)	(47,614)	(44,249)	(46,834)
-10% deviation	(1,035)	(482)	(1,023)	(477)

Movement in allowances for loan commitments and financial guarantees

2018 Group

in RON thousands	Opening balance	Increases due to origination and acquisition	Decreases due to derecognition	Transfers between Stage 1 and Stages 2/3	Other changes in credit risk (net)	Exchange-rate and other changes (+/-)	Closing balance
Stage 1	21,374	33,108	(12,486)	(11,381)	(5,707)	(473)	24,435
Stage 2	56,483	-	(19,746)	696	22,262	(1,275)	58,420
Defaulted	261,484	-	(140,118)	(3)	210,134	2,750	334,247
Total	**339,341**	**33,108**	**(172,350)**	**(10,688)**	**226,689**	**1,002**	**417,102**

2018 Bank

in RON thousands	Opening balance	Increases due to origination and acquisition	Decreases due to derecognition	Transfers between Stage 1 and Stages 2/3	Other changes in credit risk (net)	Exchange-rate and other changes (+/-)	Closing balance
Stage 1	21,263	33,058	(12,486)	(11,381)	(4,264)	(459)	25,731
Stage 2	56,482	-	(19,746)	712	22,691	(1,290)	58,849
Defaulted	261,484	-	(140,118)	(3)	210,134	2,750	334,247
Total	**339,229**	**33,058**	**(172,350)**	**(10,672)**	**228,561**	**1,001**	**418,827**

Movement in provisions (other than long term employee provisions)

2018 Group

in RON thousands	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
Pending legal issues	784,050	9,375	(608)	(113,660)	-	515	679,672
Other provisions	14,642	51,536	(36,162)	(19,201)	-	397	11,212
Total provisions less long-term employee provisions	**798,692**	**60,911**	**(36,770)**	**(132,861)**	**-**	**912**	**690,884**

2018 Bank

in RON thousands	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
Pending legal issues	744,220	-	-	(97,171)	-	28	647,077
Other provisions	11,744	52,472	(34,257)	(19,201)	-	5	10,763
Total provisions less long-term employee provisions	**755,964**	**52,472**	**(34,257)**	**(116,372)**	**-**	**33**	**657,840**

37. Provisions *(continued)*

						2017	Group
in RON thousands	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	832,991	24,509	-	(72,196)	-	(1,254)	784,050
Commitments and guarantees given	225,342	205,820	-	(80,995)	3,394	(2,304)	351,257
Provisions for guarantees - off balance (defaulted customers)	167,940	138,824	-	(43,151)	3,394	(2,584)	264,423
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
Total provisions less long-term employee provisions	**1,058,369**	**287,364**	**-**	**(195,621)**	**3,394**	**(3,558)**	**1,149,948**

						2017	Bank
in RON thousands	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	799,205	16,254	-	(71,890)	-	651	744,220
Commitments and guarantees given	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
Total provisions less long-term employee provisions	**1,024,519**	**276,141**	**-**	**(195,277)**	**3,393**	**(1,654)**	**1,107,122**

Movement in long term employee provisions

	Group		Bank	
in RON thousands	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**
Opening defined benefit obligation	42,617	45,734	42,503	45,028
Interest cost	1,848	1,521	1,848	1,502
Current service cost	3,973	4,487	3,973	4,363
Past service cost	(2,408)	(2,757)	(2,408)	(2,120)
Benefits paid	(1,286)	(636)	(1,286)	(618)
Actuarial (gains)/loss on obligations	(337)	(5,230)	(337)	(5,150)
effect of changes in financial assumptions	(799)	(6,252)	(799)	(6,181)
effect of experience adjustments	(1,538)	1,022	(1,538)	1,031
effect of demopraphic assumptions	2,000		2,000	
Settlements gain	(705)	(502)	(705)	(502)
Total	**43,702**	**42,617**	**43,588**	**42,503**

According to the collective labour 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:

	2018	2017
	%	%
Discount rate	4.70%	4.41%
Future salary increases	2.80%	2.80%
Mortality rates	ETTL-PAGLER	ETTL-PAGLER
Disability rates	ETTL-PAGLER	ETTL-PAGLER

37. Provisions *(continued)*

	Group		Bank	
Sensitivity analysis	**2018**	**2017**	**2018**	**2017**
Sensivity - Discount rate +/- %	0.50%	0.50%	0.50%	0.50%
Impact on DBO: Discount rate decrease -	2,587	3,392	2,701	2,825
Impact on DBO: Discount rate increase +	(2,592)	(2,078)	(2,478)	(2,583)
Sensivity - Salary increase rate +/- %	0.50%	0.50%	0.50%	0.50%
Impact on DBO: Salary decrease rate -	2,625	(2,130)	2,739	(2,634)
Impact on DBO: Salary increase rate +	(43,702)	3,425	(43,588)	2,857

The average duration of the defined benefit obligation at the end of the reporting period is 14.99 years.

The expected service cost for 2019 is RON 4,206 thousands for Group and RON 4,013 thousands for the Bank.

38. Other liabilities

	Group		Bank	
in RON thousands	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**
Payables related to employee cost	141,882	127,184	134,020	118,090
Taxes payable other than on income	19,067	26,460	12,076	15,051
Sundry debtors	42,902	30,726	13,770	8,125
Deferred income	36,387	32,966	32,084	29,204
Other liabilities	6,649	17,423	1,892	4,089
Total	**246,887**	**234,759**	**193,842**	**174,559**

39. Issued capital

The statutory share capital of the Bank as at 31 December 2018 is represented by 16,253,416,254 ordinary shares of RON 0.10 each (31 December 2017: 16,253,416,254 ordinary shares of RON 0.10 each). The shareholders of the Bank are as follows:

	2018		2017	
in RON thousands	**Number of shares**	**Percentage holding (%)**	**Number of shares**	**Percentage holding (%)**
Erste Group Bank AG	16,233,523,442	99.8776%	15,209,810,499	93.5792%
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"	-	0.0000%	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	19,652,200	0.1209%	19,830,840	0.1220%
Total	**16,253,416,254**	**100.0000%**	**16,253,416,254**	**100.0000%**

During 2018, Erste Group acquired the 6.2973% from SIF Oltenia (no of shares 1,023,534,303), increasing the participation from 93,5792% to 99,8776%.

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

in RON thousands	**2018**	**2017**
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)	1,327,223	1,327,223
Share capital	**2,952,565**	**2,952,565**

40. 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

40. 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

40. Segment reporting *(continued)*

in RON thousands				2018	Group
	Group	Retail	Corporates	ALM & Local Corporate Center*	GM
Net interest income	2,047,195	1,408,382	619,011	4,518	15,284
Net fee and commission income	706,814	567,176	203,788	(93,723)	29,573
Dividend income	3,731	-	-	3,731	-
Net trading result	428,362	150,310	98,227	60,452	119,373
Gains/losses from financial instruments measured at fair value through profit or loss	18,429	-	5,569	12,860	-
Net result from equity method investments	2,651	-	-	2,651	-
Rental income from investment properties and other operating leases	78,388	-	73,347	5,041	-
General administrative expenses	(1,650,172)	(1,232,422)	(362,297)	(26,458)	(28,995)
Gains/losses from reclassification from amortised cost to fair value through profit or loss	2,221	-	-	2,221	-
Net impairment loss on financial instruments	(121,217)	24,403	(167,314)	22,751	(1,057)
Other operating result	(87,920)	34,091	(25,678)	(94,302)	(2,031)
Pre-tax result from continuing operations	**1,428,482**	**951,940**	**444,653**	**(100,258)**	**132,147**
Taxes on income	**(226,219)**	**(155,370)**	**(64,393)**	**14,688**	**(21,144)**
Net result for the period	**1,202,263**	**796,570**	**380,260**	**(85,570)**	**111,003**
Net result attributable to non-controlling interests	10	-	-	10	-
Net result attributable to owners of the parent	**1,202,253**	**796,570**	**380,260**	**(85,580)**	**111,003**
Operating income	3,285,570	2,125,868	999,942	(4,470)	164,230
Operating expenses	(1,650,172)	(1,232,422)	(362,297)	(26,458)	(28,995)
Operating result	**1,635,398**	**893,446**	**637,645**	**(30,928)**	**135,235**
Cost income ratio	50.22%	57.97%	36.23%	(591.90%)	17.66%

* All intercompany eliminations are included in the Local Corporate Center

in RON thousands				2017	Group
	Group	Retail	Corporates	ALM & Local Corporate Center*	GM
Net interest income	1,764,197	1,202,517	595,952	(42,680)	8,408
Net fee and commission income	700,738	552,246	187,428	(67,099)	28,163
Dividend income	4,155	-	-	4,155	-
Net trading result	353,006	134,049	93,077	40,692	85,188
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)	(348,474)	(4,386)	(27,129)
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	(167,727)	(7,697)	(1,241)
Other operating result	(406,259)	(13,924)	(224,694)	(164,061)	(3,580)
Pre-tax result from continuing operations	**905,135**	**855,228**	**195,997**	**(235,899)**	**89,809**
Taxes on income	**(237,008)**	**(136,836)**	**(31,317)**	**(54,486)**	**(14,369)**
Net result for the period	**668,127**	**718,392**	**164,680**	**(290,385)**	**75,440**
Attributable to non-controlling interests	6	-	8	(2)	-
Attributable to owners of the parent	**668,121**	**718,392**	**164,672**	**(290,383)**	**75,440**
Operating income	2,887,881	1,889,136	936,893	(59,906)	121,758
Operating expenses	**(1,544,220)**	**(1,164,231)**	**(348,474)**	**(4,386)**	**(27,129)**
Operating result	1,343,661	724,905	588,419	(64,292)	94,629
Cost income ratio	53.47%	61.63%	37.19%	(7.32%)	22.28%

* All intercompany eliminations are included in the Local Corporate Center

40. Segment reporting *(continued)*

in RON thousands				2018	Group
	Group	Retail	Corporates	ALM & Local Corporate Center*	GM
Assets					
Cash and cash balances	11,123,191	5,517,931	159,153	5,446,107	-
Financial assets held for trading	213,965	-	(1,692)	27,832	187,825
Derivatives	31,062	-	(1,692)	27,832	4,922
Other financial assets held for trading	182,903	-	-	-	182,903
Non-trading financial assets at fair value through profit or loss	39,395	-	6,162	33,233	-
Equity instruments	33,475	-	243	33,232	-
Loans and advances to customers	5,920	-	5,919	1	-
Financial assets at fair value through other comprehensive income	5,222,081	-	41,079	5,181,002	-
Equity investments	40,721	-	-	40,721	-
Debt securities	5,181,360	-	41,079	5,140,281	-
Financial assets at amortised cost	50,843,219	24,293,222	13,280,180	13,186,757	83,060
thereof pledged as collateral	690,952	-	-	690,952	-
Debt securities	15,879,108	1,524,360	307,348	14,047,400	-
Loans and advances to banks	123,840	1,094,050	334	(1,050,781)	80,237
Loans and advances to customers	34,840,271	21,674,812	12,972,498	190,138	2,823
Finance lease receivables	990,868	-	1,020,428	(29,560)	-
Property and equipment	1,169,260	1,408	407,102	760,750	-
Investment property	162,806	-	-	162,806	-
Intangible assets	361,898	3,055	4,736	354,107	-
Investments in joint ventures and associates	20,027	-	-	20,027	-
Current tax assets	181,800	2,592	386	178,822	-
Deferred tax assets	202,165	704	8,728	192,733	-
Assets held for sale	161,114	-	-	161,114	-
Trade and other receivables	563,014	19,361	379,842	116,470	47,341
Other assets	275,502	57,530	82,413	135,559	-
Total assets	**71,530,305**	**29,895,803**	**15,388,517**	**25,927,759**	**318,226**
Liabilities and Equity					
Financial liabilities held for trading	32,988	-	254	27,790	4,944
Derivatives	32,988	-	254	27,790	4,944
Financial liabilities measured at amortised cost	61,618,808	37,499,591	18,140,605	3,536,211	2,442,401
Deposits from banks	2,127,723	228,431	2,083,200	(777,398)	593,490
Borrowings and financing lines	2,408,375	-	-	2,408,375	-
Deposits from customers	55,098,959	37,205,424	16,013,604	46,881	1,833,050
Debt securities issued	349,153	-	-	349,153	-
Subordinated loans	1,041,982	-	-	1,041,982	-
Other financial liabilities	592,616	65,736	43,801	467,218	15,861
Provisions	1,151,688	497,061	411,704	242,457	466
Current tax liabilities	97,782	-	662	97,120	-
Liabilities associated with assets held for sale	15,438	-	-	15,438	-
Other liabilities	246,887	17,570	29,799	199,518	-
Total equity	**8,366,714**	**2,631,708**	**2,111,887**	**3,561,444**	**61,675**
Total liabilities and equity	**71,530,305**	**40,645,930**	**20,694,911**	**7,679,978**	**2,509,486**

* All intercompany eliminations are included in the Local Corporate Center

40. Segment reporting *(continued)*

in RON thousands				2017	Group
	Group	Retail	Corporates	ALM & Local Corporate Center*	GM
Assets					
Cash and cash balances	11,369,344	4,454,408	110,817	6,368,647	435,472
Financial assets - held for trading	104,694	-	(1,332)	20,943	85,083
Derivatives	41,449	-	(1,332)	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	259,154	5,915,733	-
Financial assets - held to maturity	14,756,894	1,335,851	45,315	13,375,728	-
Loans and advances to credit institutions	2,215,113	1,081,030	44,715	(449,673)	1,539,041
Loans and advances to customers	33,490,883	18,980,755	14,272,170	223,325	14,633
Property and equipment	1,315,683	1,901	297,654	1,016,128	-
Investment properties	121,490	-	-	121,490	-
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**	**15,137,064**	**27,361,385**	**2,074,229**
Liabilities					
Financial liabilities held for trading	44,661	-	(34)	23,057	21,638
Derivatives	44,661	-	(34)	23,057	21,638
Financial liabilities measured at amortised cost	62,007,067	34,964,059	17,722,918	6,844,107	2,475,983
Deposits from banks	7,826,190	166,459	1,737,763	5,505,861	416,107
Deposits from customers	52,496,062	34,708,443	15,729,661	18,523	2,039,435
Debt securities issued	539,648	-	-	539,648	-
Other financial liabilities	1,145,167	89,157	255,494	780,075	20,441
Provisions	1,192,565	698,801	343,467	150,244	53
Current tax liabilities	230	-	-	230	-
Deferred tax liabilities	25	19	216	(210)	-
Liabilities associated with disposal groups held for sale	12,819	-	-	12,819	-
Other Liabilities	234,759	25,466	32,257	177,036	-
Total equity	**7,439,113**	**2,059,424**	**1,742,864**	**3,581,630**	**55,195**
Total liabilities and equity	**70,931,239**	**37,747,769**	**19,841,688**	**10,788,913**	**2,552,869**

* All intercompany eliminations are included in the Local Corporate Center

40. Segment reporting *(continued)*

in RON thousands				2018	Bank
	Bank	Retail	Corporates	ALM & Local Corporate Center	GM
Net interest income	1,946,477	1,385,861	540,264	5,068	15,284
Net fee and commission income	673,853	523,756	201,379	(80,855)	29,573
Dividend income	11,684	-	-	11,684	-
Net trading result	420,776	150,340	90,467	60,596	119,373
Gains/losses from financial instruments measured at fair value through profit or loss	18,429	-	5,569	12,860	-
Rental income from investment properties and other operating leases	11,045	-	-	11,045	-
General administrative expenses	(1,511,082)	(1,192,882)	(269,731)	(19,474)	(28,995)
Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss	2,221	-	-	2,221	-
Net impairment loss on financial instruments	(122,361)	13,940	(152,977)	17,733	(1,057)
Other operating result	(260,487)	33,557	(14,393)	(277,620)	(2,031)
Pre-tax result from continuing operations	**1,190,555**	**914,572**	**400,578**	**(256,742)**	**132,147**
Taxes on income	**(220,108)**	**(148,104)**	**(64,093)**	**13,233**	**(21,144)**
Net result for the period	**970,447**	**766,468**	**336,485**	**(243,509)**	**111,003**
Operating income	3,082,264	2,059,957	837,679	20,398	164,230
Operating expenses	(1,511,082)	(1,192,882)	(269,731)	(19,474)	(28,995)
Operating result	**1,571,182**	**867,075**	**567,948**	**924**	**135,235**
Cost income ratio	49.03%	57.91%	32.20%	95.47%	17.66%

in RON thousands				2017	Bank
	Bank	Retail	Corporates	ALM & Local Corporate Center	GM
Net interest income	1,678,727	1,190,110	522,901	(42,782)	8,498
Net fee and commission income	661,160	511,137	188,918	(67,058)	28,163
Dividend income	19,872	-	-	19,872	-
Net trading result	346,465	134,064	85,994	41,219	85,188
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)	(272,946)	(5,235)	(27,129)
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	(160,398)	(7,697)	(1,241)
Other operating result	(456,210)	11,075	(200,200)	(263,505)	(3,580)
Pre-tax result from continuing operations	**807,022**	**866,360**	**165,958**	**(315,195)**	**89,899**
Taxes on income	(236,712)	(138,618)	(26,509)	(57,201)	(14,384)
Net result for the period	**570,310**	**727,742**	**139,449**	**(372,396)**	**75,515**
Profit from discontinued operations net of tax	-	-	-	-	-
Net result for the period	**570,310**	**727,742**	**139,449**	**(372,396)**	**75,515**
Operating income	2,717,753	1,835,311	799,502	(38,909)	121,849
Operating expenses	(1,431,973)	(1,126,663)	(272,946)	(5,235)	(27,129)
Operating result	**1,285,780**	**708,648**	**526,556**	**(44,144)**	**94,720**
Cost income ratio	52.69%	61.39%	34.14%	(13.45%)	22.26%

40. Segment reporting *(continued)*

in RON thousands				2018	Bank
	Bank	Retail	Corporates	ALM & Local Corporate Center	GM
Assets					
Cash and cash balances	10,862,852	5,380,922	-	5,481,930	-
Financial assets held for trading	214,092	-	(1,692)	27,959	187,825
Derivatives	31,189	-	(1,692)	27,959	4,922
Other financial assets held for trading	182,903	-	-	-	182,903
Non-trading financial assets at fair value through profit or loss	39,152	-	5,919	33,233	-
Equity instruments	33,232	-	-	33,232	-
Loans and advances to customers	5,920	-	5,919	1	-
Financial assets at fair value through other comprehensive income	5,187,019	-	6,017	5,181,002	-
Equity investments	40,721	-	-	40,721	-
Debt securities	5,146,298	-	6,017	5,140,281	-
thereof pledged as collateral	41,748	-	-	41,748	-
Financial assets at amortised cost	48,732,568	21,459,697	12,315,535	14,874,276	83,060
thereof pledged as collateral	1,693,280	-	-	1,693,280	-
Debt securities	14,297,905	-	250,504	14,047,401	-
Loans and advances to banks	388,848	-	-	308,611	80,237
Loans and advances to customers	34,045,815	21,459,697	12,065,031	518,264	2,823
Property and equipment	760,646	-	-	760,646	-
Investment property	162,806	-	-	162,806	-
Intangible assets	354,020	-	-	354,020	-
Investments in joint ventures and associates	7,509	-	-	7,509	-
Current tax assets	178,822	-	-	178,822	-
Deferred tax assets	197,061	-	-	197,061	-
Assets held for sale	117,699	-	-	117,699	-
Trade and other receivables	543,179	17,165	361,554	117,119	47,341
Investments in subsidiaries	403,152	-	-	403,152	-
Other assets	148,677	-	-	148,677	-
Total assets	**67,909,254**	**26,857,784**	**12,687,333**	**28,045,911**	**318,226**
Liabilities and Equity					
Financial liabilities held for trading	32,988	-	(18)	28,062	4,944
Derivatives	32,988	-	(18)	28,062	4,944
Financial liabilities measured at amortised cost	58,326,984	34,844,050	15,798,007	5,242,526	2,442,401
Deposits from banks	3,076,973	600	163	2,482,720	593,490
Borrowings and financing lines	672,249	-	-	672,249	-
Deposits from customers	52,593,690	34,781,169	15,759,764	219,707	1,833,050
Debt securities issued	349,153	-	-	349,153	-
Subordinated loans	1,041,982	-	-	1,041,982	-
Other financial liabilities	592,937	62,281	38,080	476,715	15,861
Provisions	1,120,255	465,661	409,905	244,223	466
Current tax liabilities	97,110	-	-	97,110	-
Other liabilities	193,842	-	-	193,842	-
Total equity	**8,138,075**	**2,555,461**	**1,846,141**	**3,674,421**	**62,052**
Total liabilities and equity	**67,909,254**	**37,865,172**	**18,054,035**	**9,480,184**	**2,509,863**

40. Segment reporting *(continued)*

in RON thousands				2017	Bank
	Bank	Retail	Corporates	ALM & Local Corporate Center	GM
Assets					
Cash and cash balances	11,245,387	4,396,898	-	6,413,016	435,473
Financial assets - held for trading	104,694	-	(1,332)	20,943	85,083
Derivatives	41,449	-	(1,332)	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	6,146,992	-	231,259	5,915,733	-
Financial assets - held to maturity	13,375,729	-	-	13,375,729	-
Loans and advances to credit institutions	2,420,035	-	-	880,994	1,539,041
Loans and advances to customers	32,020,306	18,810,728	12,654,103	540,842	14,633
Property and equipment	1,015,988	-	-	1,015,988	-
Investment properties	121,490	-	-	121,490	-
Intangible assets	314,231	-	-	314,231	-
Investments in associates	7,509	-	-	7,509	-
Tax assets	83,435	-	-	83,435	-
Deferred tax assets	157,361	-	-	157,361	-
Non-current assets and disposal groups classified as held for sale	14,792	-	-	14,792	-
Other assets	691,405	-	-	691,405	-
Total assets	**67,734,485**	**23,222,757**	**12,884,030**	**29,553,468**	**2,074,230**
Liabilities					
Financial liabilities held for trading	44,661	-	(34)	23,056	21,639
Derivatives	44,661	-	(34)	23,056	21,639
Financial liabilities measured at amortised cost	58,920,983	32,168,143	15,756,223	8,520,634	2,475,983
Deposits from banks	7,389,633	-	-	6,973,526	416,107
Deposits from customers	49,885,158	32,083,327	15,544,800	217,595	2,039,436
Debt securities issued	539,648	-	-	539,648	-
Other financial liabilities	1,106,544	84,816	211,423	789,865	20,440
Provisions	1,149,625	658,122	341,206	150,244	53
Other Liabilities	174,559	-	-	174,559	-
Total equity	**7,444,657**	**1,981,663**	**1,549,800**	**3,853,284**	**59,910**
Total liabilities and equity	**67,734,485**	**34,807,928**	**17,647,195**	**12,721,777**	**2,557,585**

41. Return on assets and turnover information

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

	Group		Bank	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Return on assets	1.67%	0.99%	1.41%	0.89%

The return on assets is calculated based on monthly average total assets.

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 2018 amounts to RON 4,094,522 thousands (2017: RON 3,598,575 thousands) and is calculated and presented in compliance with Article 644 of the above mentioned regulation.

42. Leases

a) Finance leases

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.

	2018	2017
Outstanding minimum lease payments	1,042,497	1,518,957
Gross investment	**1,042,497**	**1,518,957**
Unrealised financial income	(29,661)	(47,665)
Net investment	**1,012,836**	**1,471,292**
Present value of minimum lease payments	**1,012,836**	**1,471,292**

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

	2018	2017
< 1 year	360,847	695,437
1-5 years	667,518	805,599
> 5 years	14,131	17,921
Total	**1,042,496**	**1,518,957**

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	
	2018	2017	2018	2017
< 1 an	23,483	27,803	1,488	579
1-5 ani	218,931	87,322	4,550	1,013
> 5 ani	70,651	22,213	1,788	164
Total	**313,065**	**137,338**	**7,826**	**1,756**

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

	Group		Bank	
	2018	2017	2018	2017
< 1 year	65,149	60,759	59,339	23,438
1-5 years	257,487	143,713	241,338	80,687
> 5 years	64,796	77,490	61,588	21,740
Total	**387,432**	**281,962**	**362,265**	**125,865**

Lease payments from operating leases recognized as expense in the period amounted to RON 77,779 thousands (2017: RON 69,283 thousands) for Group and RON 74,381 thousands (2017: RON 61,527 thousands) for Bank.

43. 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 2018 and 2017 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 9.

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.

Terms and conditions

In relation to related parties, the accounts have the following characteristics:

Current accounts were opened between September 2006 and December 2018 and the interest rate is 0%.

Loans and advances accounts were opened between September 2005 and December 2018, maturing between January 2019 and April 2043, the interest rate is between 3.5-6.45% for loans and 15-28% for credit cards - fixed interest and 2.75-8.52% for loans and 14.52-17.52% for credit cards variable interest.

Term deposits were opened between July 2007 and December 2018, maturing between January 2019 and February 2022, and the interest rate is fixed between 0.01-3.4% or variable between 0.05-0.3% depending on the currency and maturity of the deposit.

Loans commitments, financial guarantees and other commitments given includes revocable and irrevocable letters of guarantee, undrawn commitments for loans and credit cards granted in RON, EUR or USD. The BCR issued a risk participation agreement with one of its subsidiary which cover credit risk for some of subsidiary’s major clients.
Loan commitments, financial guarantees and other commitments received includes letters of guarantee received from parent company.

43. Related-party transactions and principal shareholders *(continued)*

The following transactions were carried out with related parties:

Balances and off-balace exposures with related parties — Group

in RON thousands	2018 Parent	2018 Associates	2018 Key management personnel	2018 Other related parties	2017 Parent	2017 Associates	2017 Key management personnel	2017 Other related parties
Total assets	**264,000**	**20,027**	**10,815**	**70,541**	**2,424,479**	**17,375**	**12,943**	**89,848**
Cash and cash equivalents	104,060	-	-	-	367,891	-	-	-
Derivative financial instruments	11,979	-	-	-	24,581	-	-	-
Financial assets at fair value through other comprehensive income	-		-		-		-	-
Equity investments	-	20,027	-	25,113	-	17,375	-	12,577
Loans and advances	**111,636**	**-**	**10,778**	**41,397**	**2,032,007**	**-**	**12,943**	**77,271**
Loans and advances with credit institutions	111,636	-	-	-	2,032,007	-	-	-
Loans and advances with customers	-	-	10,778	41,397	-	-	12,943	77,271
Trade and other receivables	36,325	-	-	4,024	-	-	-	-
Other assets	-	-	37	7	-	-	-	-
Total Liabilities	**4,073,146**	**18,952**	**8,508**	**170,170**	**6,618,410**	**40,555**	**8,313**	**137,815**
Deposits	**4,037,234**	**18,899**	**8,503**	**136,934**	**6,577,298**	**40,555**	**8,313**	**95,175**
Deposits by banks	1,599,582	-	-	4,590	2,945,750	-	-	-
Deposits by customers	-	18,899	8,503	132,344	-	40,555	8,313	95,175
Borrowings and financing lines	1,395,670	-	-	-	1,260,049	-	-	-
Subordinated loans	1,041,982	-	-	-	2,371,499	-	-	-
Derivative financial instruments	31,857	-	-	-	41,112	-	-	-
Other liabilities	4,055	53	5	33,236	-	-	-	42,640
Loans commitments, financial guarantees and other commitments given -Irrevocable [notional amount]	**14,184**	**-**	**412**	**20,463**	**46,519**	**-**	**517**	**658**
Loans commitments, financial guarantees and other commitments given -Revocabile [notional amount]	**-**	**-**	**-**	**147,736**	**-**	**-**	**-**	**38,343**
Loan commitments, financial guarantees and other commitments received	**947,638**	**-**	**-**	**-**	**775,890**	**-**	**-**	**-**
Derivatives [notional amount]	**5,961,350**	**-**	**-**	**-**	**5,616,117**	**-**	**-**	**-**

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

in RON thousands	2018 Parent	2018 Associates	2018 Key management personnel	2018 Other related parties	2017 Parent	2017 Associates	2017 Key management personnel	2017 Other related parties
Interest income	71,890	-	413	2,413	48,482	-	373	804
Interest expenses	(195,401)	(491)	(11)	(1,436)	(240,071)	(142)	(11)	(647)
Dividend income	-	-	-	1,971	-	-	-	2,062
Fee and commission income	5,575	2	42	101,403	4,946	2	36	57,860
Fee and commission expenses	(13,384)	(1,250)	-	(17,418)	(11,475)	-	-	(11,893)
Net impairment loss on financial instruments	1,049	-	-	-	-	-	-	-
Net trading results income/(expense)	172,757	-	-	-	(69,008)	-	-	27
Other operating income	-	-	-	36,786	-	-	-	30,412
Other operating expense	(68)	-	-	(54,267)	-	-	-	(64,447)
Profit before tax income/(expense)	**42,418**	**(1,739)**	**444**	**69,452**	**(267,126)**	**(140)**	**398**	**14,178**

43. Related-party transactions and principal shareholders *(continued)*

Balances and off-balace exposures with related parties — Bank

in RON thousands	2018 Parent	2018 Subsidiaries	2018 Associates	2018 Key management personnel	2018 Other related parties	2017 Parent	2017 Subsidiaries	2017 Associates	2017 Key management personnel	2017 Other related parties
Total assets	**212,633**	**1,012,374**	**7,509**	**10,815**	**70,534**	**2,424,479**	**1,050,493**	**7,509**	**12,943**	**89,827**
Cash and cash equivalents	52,693	-	-	-	-	367,891	390	-	-	-
Derivative financial instruments	11,979	127	-	-	-	24,581	-	-	-	-
Equity investments*	-	410,408	7,509	-	25,113	-	546,818	7,509	-	12,556
Loans and advances	**111,636**	**599,638**	**-**	**10,778**	**41,397**	**2,032,007**	**485,527**	**-**	**12,943**	**77,271**
Loans and advances with credit institutions	111,636	271,512	-	-	-	2,032,007	209,895	-	-	-
Loans and advances with customers	-	328,126	-	10,778	41,397	-	275,632	-	12,943	77,271
Trade and other receivables	36,325	168	-	-	4,024	-	-	-	-	-
Other assets	-	2,033	-	37	-	-	17,758	-	-	-
Total Liabilities	**2,912,158**	**1,135,219**	**18,952**	**8,508**	**170,039**	**5,600,744**	**1,174,904**	**40,555**	**8,313**	**139,222**
Deposits	**2,876,246**	**1,126,375**	**18,899**	**8,503**	**136,934**	**5,559,632**	**1,165,975**	**40,555**	**8,313**	**96,704**
Deposits by banks	1,597,426	953,549	-	-	4,590	2,931,790	989,662	-	-	-
Deposits by customers	-	172,826	18,899	8,503	132,344	-	176,313	40,555	8,313	96,704
Borrowings and financing lines	236,838	-	-	-	-	256,343	-	-	-	-
Subordinated loans	1,041,982	-	-	-	-	2,371,499	-	-	-	-
Derivative financial instruments	31,857	-	-	-	-	41,112	-	-	-	-
Other liabilities	4,055	8,844	53	5	33,105	-	8,929	-	-	42,518
Loans commitments, financial guarantees and other commitments given - Irrevocable [notional amount]	**14,184**	**19,763**	**-**	**412**	**20,463**	**46,519**	**14,306**	**-**	**517**	**658**
Loans commitments, financial guarantees and other commitments given - Revocabile [notional amount]	**-**	**296,120**	**-**	**-**	**147,736**	**-**	**345,380**	**-**	**-**	**38,343**
of which: defaulted	**-**	**2,772**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Loan commitments, financial guarantees and other commitments received	**233,195**	**-**	**-**	**-**	**-**	**239,402**	**-**	**-**	**-**	**-**
Derivatives [notional amount]	**5,961,350**	**74,156**	**-**	**-**	**-**	**5,616,117**	**-**	**-**	**-**	**-**

* The amount includes the investment in CIT One reclassified as Asset held for sale in amount of RON 7,256 thousands in 2018 (RON 13,308 thousands in 2017).

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

in RON thousands	2018 Parent	2018 Subsidiaries	2018 Associates	2018 Key management personnel	2018 Other related parties	2017 Parent	2017 Subsidiaries	2017 Associates	2017 Key management personnel	2017 Other related parties
Interest income	71,821	18,513	-	413	2,413	48,482	9,195	-	373	804
Interest expenses	(182,263)	(22,973)	(491)	(11)	(1,063)	(228,669)	(7,190)	(142)	(11)	(158)
Dividend income	-	7,953	-	-	1,971	-	15,718	-	-	2,062
Fee and commission income	5,567	7,452	2	42	101,403	4,930	4,752	2	36	57,860
Fee and commission expenses	(6,897)	(4)	(1,250)	-	(17,418)	(5,781)	(2)	-	-	(11,883)
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	-	-	-	-	-	-	10	-	-	-
Impairment of subsidiaries	-	(166,410)	-	-	-	-	(97,410)	-	-	-
Net impairment loss on financial instruments	1,049	(5,092)	-	-	-	-	-	-	-	-
Net trading results income/(expense)	172,757	350	-	-	-	(69,008)	-	-	-	27
Other operating income	-	5,531	-	-	35,628	-	8,202	-	-	29,550
Other operating expense	(68)	(420)	-	-	(53,653)	-	(1,407)	-	-	(63,553)
Profit before tax income/(expense)	**61,966**	**(155,100)**	**(1,739)**	**444**	**69,281**	**(250,046)**	**(68,132)**	**(140)**	**398**	**14,709**

44. Encumbered assets

	Group		Bank	
in RON thousands	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Financial assets at amortised cost	690,952		1,693,280	
Financial assets available for sale		141,831		557,101
Financial assets at fair value through other comprehensive income	-		41,748	
Financial assets - held to maturity		617,019		1,168,374
Total	**690,952**	**758,850**	**1,735,028**	**1,725,475**

On 31 December 2018, government bonds with a total value of RON 690,592 thousands (31 December 2017: RON 617,019 thousands) have been used as pledge for funding received from International Financial Institutions 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 45) and securities pledged as collateral for various purposes, as described above.

45. Transfers of financial assets – repurchase transactions
45.1. Repurchase transactions

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

				Group
in RON thousands	Carrying amount of transferred assets	Carrying amount of associated liabilities	Carrying amount of transferred assets	Carrying amount of associated liabilities
	31.12.2018		31.12.2017	
Financial assets at fair value through other comprehensive income	-	-		
Financial assets - available for sale			141,831	142,175
Total - repurchase agreements	**-**	**-**	**141,831**	**142,175**

				Bank
in RON thousands	Carrying amount of transferred assets	Carrying amount of associated liabilities	Carrying amount of transferred assets	Carrying amount of associated liabilities
	31.12.2018		31.12.2017	
Repurchase agreements				
Financial assets at fair value through other comprehensive income	41,748	39,740		
Financial assets at amortised cost	1,002,328	909,404		
Financial assets - available for sale			557,101	535,356
Financial assets - held to maturity			551,355	517,453
Total - repurchase agreements	**1,044,076**	**949,144**	**1,108,456**	**1,052,809**

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

The total amount RON 1,044,076 thousands (RON 1,108,456 thousands at 31 December 2017) represents the carrying amount of financial assets in the respective balance sheet positions for which the transferee has a right to sell or repledged.

Liabilities from repo transaction in the amount of RON 949,144 thousands (RON 1,052,809 thousands at 31 December 2017), which are measured at amortised cost, represent an obligation to repay the borrowed funds.

45. Transfers of financial assets – repurchase transactions *(continued)*

45.1. Repurchase transactions *(continued)*

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

				Group
in RON thousands	Fair value of transferred assets	Fair value of associated liabilities	Fair value of transferred assets	Fair value of associated liabilities
	31.12.2018		31.12.2017	
Financial assets at amortised cost	-	-		
Financial assets - available for sale			141,831	143,553
Total	**-**	**-**	**141,831**	**143,553**

				Bank
in RON thousands	Fair value of transferred assets	Fair value of associated liabilities	Fair value of transferred assets	Fair value of associated liabilities
	31.12.2018		31.12.2017	
Financial assets at fair value through other comprehensive income	-	-		
Financial assets at amortised cost	1,006,213	964,465		
Financial assets - available for sale			557,101	563,970
Financial assets - held to maturity			546,094	552,827
Total	**1,006,213**	**964,465**	**1,103,195**	**1,116,797**

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 44.

As at 31 December 2018, The Bank concluded a reverse repurchase transaction in amount of 50,004 RON thousands, with maturity until 01.03.2019. The Bank received as collateral a financial asset consisting in a bond issued by Société Générale SFH, having a fair value of RON 55,315 thousands. The Bank has the right to sell or repledge the asset in the absence of default situation of the owner of the collateral.

				Bank
in RON thousands	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
	31.12.2018		31.12.2017	
Cash and cash balances	-	-	325,055	345,909
Loans and advances to banks	50,004	55,315	1,936,436	2,074,272
Total	**50,004**	**55,315**	**2,261,491**	**2,420,181**

45.2. 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 31.12.2018, in amount of RON 0 mil (31.12.2017: RON 11.2 mil);
- provisions booked as Other provisions under Other Operating Result, in amount of RON 16.8 mil (31.12.2017: RON 14.5 mil);
- provisions booked as pending legal issue provisions, in amount of RON 25 mil (31.12.2017: RON 27.3 mil).

46. 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.

46.1. 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 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 2018, 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.

46.2. 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 and Compliance Committee of the Supervisory Board

The Risk and Compliance 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, compliance, financial crime and litigations and issues recommendations according to the authority limits established through the Internal Rules.

46. Risk management *(continued)*

46.2 Risk governance structure *(continued)*

The Audit Committee

The Audit 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 and audit.

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.

46.3. 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 and Compliance 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;

46. Risk management *(continued)*
46.3 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:

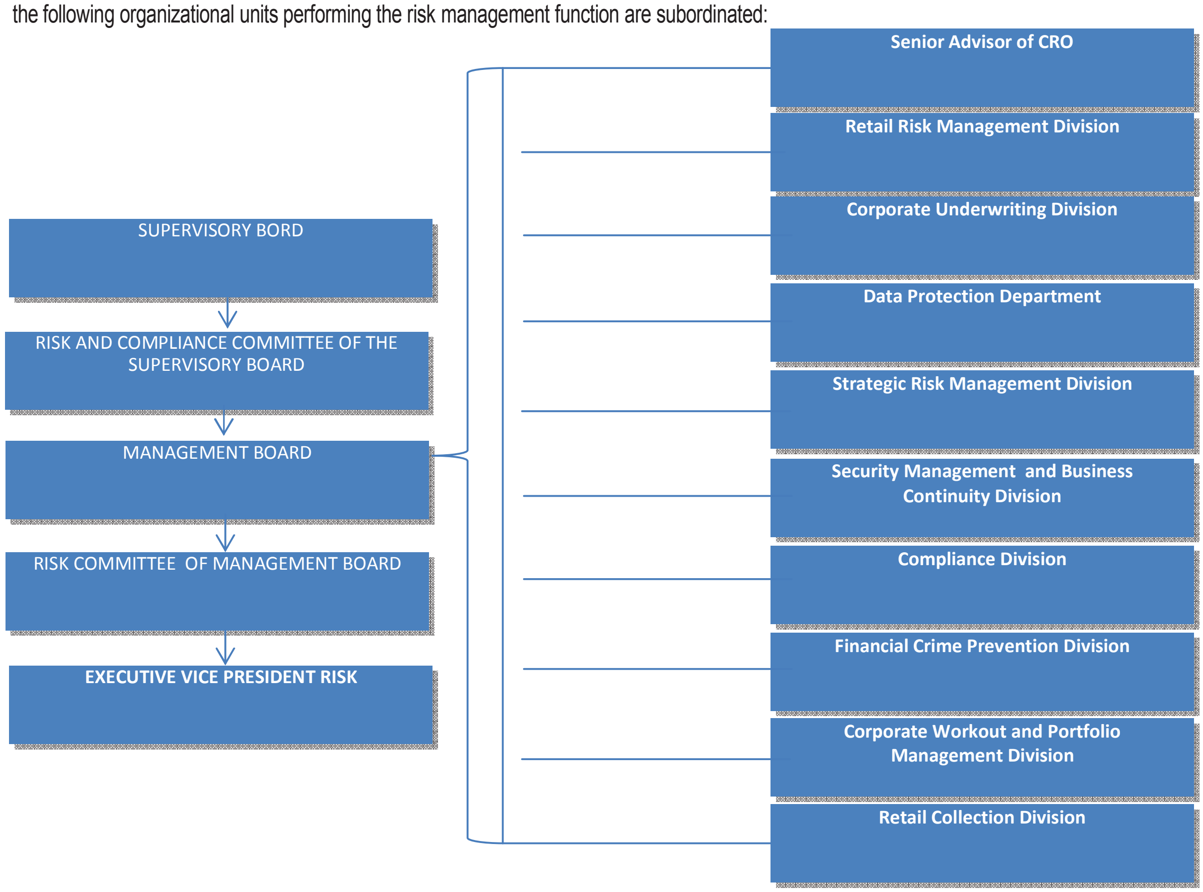


Figure : Organizational structure of Risk Management Function as of end 2018

46.4. 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.

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, limits and risk strategy;
- 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.

46.4.1. Risk Management Principles

The Group aims at achieving balanced risk and return in order to generate a sustainable growth and adequate return on equity. Therefore, it is the BCR Group's policy that risks are assumed only in the context of the Bank's business and those risks are recognized at an early stage and adequately 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;
- Independent expert Risk functions with clear accountability for proactive management of material risks;
- Risk strategy defined 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 through limits monitoring;
- All material risks managed and reported in coordinated manner via risk management processes;
- Modelling 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;
- Risk management function ensures that all material risks are identified, measured and properly reported. It is playing a key role

46. Risk management *(continued)*

46.4. Group-wide risk and capital management *(continued)*

46.4.1. Risk Management Principles *(continued)*

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.

46.4.2. 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.

BCR Group subsidiaries identified as material based on the Proportionality Principles must adapt, implement and approve locally the proportionality concept in order to ensure a meaningful, suitable and adequate application across the Group in line with local needs and capabilities, while still fulfilling overall group level requirements and standards.

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.

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

46. Risk management *(continued)*
46.4. Group-wide risk and capital management *(continued)*
46.4.3. Risk appetite *(continued)*

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 2018 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.

46.4.4. 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.

46.4.5. Risk materiality assessment

The Group 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 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.

46.4.6. Risk Profile

The risk profile is represented by the aggregated actual and potential risk exposures of the Group. 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 Group.

46.4.7. 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.

46. Risk management *(continued)*

46.4. Group-wide risk and capital management *(continued)*

46.4.8. 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.

46.4.9. Risk Capacity

Risk capacity (also known as risk-bearing capacity) represents the Bank's overall ability to absorb potential losses and is a measure of the total risk exposure for Pillar II purposes under the ICAAP framework. 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 Group 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. 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.

46.4.10. 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 Group. Risk management and forecasting is used by the Group 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 Group ensures that there is a strong link between the capital planning, budgeting and strategic planning processes. The risk planning and forecasting process includes both a forward- and backward-looking component, focusing on both portfolio and economic environment changes.

Key risk indicators covered by the Risk Planning framework include indicators that provide an overview of incurred or potential risks which contribute to overview of profitability and capital adequacy. Indicators include RWA (and related indicators), portfolio quality indicators (impairments, NPL/NPE and relevant performance indicators etc.), as well as indicators required by the regulatory authorities under the risks divisions responsibility.

46. Risk management *(continued)*

46.4. Group-wide risk and capital management *(continued)*

46.4.11. 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.

46.4.12. 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 Group 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 Group'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.

46.4.13. Capital planning and capital allocation

Based on the material risks identified, the Group 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 Group's capital planning process and the setting of internal capital targets.

The Group 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 Group'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.

46.4.14. 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.

46. Risk management *(continued)*

46.5. 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 arises in BCR's traditional lending and investment activities.

It also involves credit losses due to counterparty risk from trading in instruments and derivatives bearing market risk. Country risk and related macro-economic forward looking information is also recognised in the calculation of credit risk.

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

Irrevocable and revocable 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.

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 un-hedged borrowers, which arises due to exchange rate fluctuations of the respective foreign currency.

46. Risk management *(continued)*
46.5. Credit risk *(continued)*

Internal rating system

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 each customer is updated event-specific, however, at least once a year (annual rating review). Ratings of workout customers are reviewed with higher frequency.

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.

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).

Internal specialist teams develop and improve internal rating models and risk parameters in cooperation with risk managers. Model development follows an internal group-wide methodological standard and utilises relevant data covering the respective market.

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 relevance, reviews the quality of documentation and degree of user acceptance. The results of this validation process are reported to the Group's management body. In addition to the validation process, the Group applies a regular monitoring process on the performance of rating tools, reflecting developments in new defaults and early delinquencies.

Credit risk classification

For the purpose of disclosing asset quality, the Group assigns each customer to one of the following four risk categories:

Low risk: Typically regional customers with well-established and rather long-standing relationships or large internationally recognized customers. A strong and good financial position and no foreseeable financial difficulties. Retail clients having long relationships with the Group, or clients with a wide product pool use. No relevant late payments currently or in the most recent 12 months. New business is generally with clients in this risk category.

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 and shows an elevated probability of failure. In some cases, restructuring measures are possible or already in place. 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 unlikeliness 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 forborne exposures. In analogy to non-performing defaulted exposure, since December 2018, the 'contamination principle' also applies to non-performing forborne exposure. If one transaction with a customer is qualified as a non-performing forborne exposure, the total exposure to the customer is classified as non-performing, even if the other deals with the customer do not meet the criteria for non-performing forbearance and/or default.

46. Risk management *(continued)*
46.5. Credit risk *(continued)*

An exposure is considered as non-performing forborne, 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 forborne 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 or 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
- the customer meets any of the default event criteria defined in the Group internal default definition.

In order to enhance the comparability of asset quality, in 2018 Erste Group developed and implemented a new model for the assignment of exposures to risk categories. Based on the calibration of PDs for regulatory purposes to the default rates published by rating agencies, the equivalent external customer rating was used for the assignment to risk categories. For the agency ratings, average one-year default rates resulting from long-term time series were applied.

Compared to the method used for the assignment of credit exposures to risk categories until 2017, the most prominent impact concerns the migration of exposures in the category 'management attention' to 'substandard' (approximately 2% as of 31 December 2018). The 'non-performing' risk category was not affected by the change in the methodology. As the newly developed model was implemented during 2018, the disclosure of comparative figures is not appropriate.

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 the Group 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 pro-active approach of the clients and maintaining an adequate payment behaviour of the corporate clients. Once adverse developments are identified, an action plan containing corrective measures is initiated.

For smaller enterprises (micro-banking) and private individuals (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 –demand deposits to central and credit institutions;
- debt instruments held for trading;
- non-trading debt instruments at fair value through profit or loss (FVPL);
- debt instruments at fair value through other comprehensive income (FVOCI);

46. Risk management *(continued)*
46.5. Credit risk *(continued)*

- debt instruments at amortised cost (AC), other than trade and other receivables;
- debt instruments held for sale in disposal groups;
- finance lease receivables;
- trade and other receivables (for disclosure purposes in the tabular summaries below, any contract assets are also included in this category);
- positive fair value of derivatives;
- off-balance sheet credit risks (primarily financial guarantees and undrawn credit commitments).

For credit risk purposes debt instruments shall include debt securities and loans and advances. Equity instruments are not included in the credit risk exposure.

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 6,4% or RON 4,345,495 thousand, from almost RON 68,143,146 thousands as of 31 December 2017 to approximately RON 72,488,640 thousands as of 31 December 2018.

The gross carrying amount of the credit risk exposure of the Bank increased by 7.1% or RON 4,616,956 thousand, from almost RON 64,846,409 thousands as of 31 December 2017 to approximately RON 69,463,364 thousands as of 31 December 2018.

Reconciliation between the gross carrying amount and the carrying amount of the credit risk exposure components

	Group				Bank			
in RON thousands	Credit risk exposure	Credit loss allowances	Adjustments	Carrying amount	Credit risk exposure	Credit loss allowances	Adjustments	Carrying amount
	31.12.2018							
Cash and cash balances - demand deposits to central banks and credit institutions	202,567	(632)	-	201,936	146,789	-	-	146,789
Debt instruments held for trading	213,965	-	-	213,965	214,092	-	-	214,092
Non-trading debt instruments at FVPL	5,920	-	-	5,920	5,920	-	-	5,920
Debt securities	-	-	-	-	-	-	-	-
Loans and advances to banks	-	-	-	-	-	-	-	-
Loans and advances to customers	5,920	-	-	5,920	5,920	-	-	5,920
Debt instruments at FVOCI	5,124,698	(3,789)	56,662	5,181,360	5,089,620	(2,223)	56,678	5,146,298
Debt securities	5,124,698	(3,789)	56,662	5,181,360	5,089,620	(2,223)	56,678	5,146,298
Loans and advances to banks	-	-	-	-	-	-	-	-
Loans and advances to customers	-	-	-	-	-	-	-	-
Debt instruments at AC	52,926,795	(2,083,576)	-	50,843,219	50,725,301	(1,992,733)	-	48,732,568
Debt securities	15,891,322	(12,214)	-	15,879,108	14,306,813	(8,908)	-	14,297,905
Loans and advances to banks	124,123	(283)	-	123,840	391,811	(2,963)	-	388,848
Loans and advances to customers	36,911,350	(2,071,079)	-	34,840,271	36,026,675	(1,980,860)	-	34,045,815
Trade and other receivables	694,943	(131,929)	-	563,014	663,148	(119,970)	-	543,179
Finance lease receivables	1,012,837	(21,969)	-	990,868	-	-	-	-
Debt instruments held for sale in disposal groups	-	-	-	-	-	-	-	-
Positive fair value of hedge accounting derivatives	-	-	-	-	-	-	-	-
Off balance-sheet exposures	12,306,915	(417,104)	-	-	12,618,495	(418,830)	-	-
Total	**72,488,640**	**(2,658,998)**	**56,662**	**58,000,282**	**69,463,364**	**(2,533,755)**	**56,678**	**54,788,845**

	Group			Bank		
in RON thousands	Gross carrying amount	Allowances	Carrying amount	Credit risk exposure	Credit loss allowances	Adjustments
	31.12.2017					
Cash and cash balances – other demand deposits	679,924	-	679,924	655,489	-	655,489
Loans and receivables to credit institutions	2,221,260	(6,147)	2,215,113	2,426,183	(6,148)	2,420,035
Loans and receivables to customers	36,218,507	(2,727,624)	33,490,883	34,584,122	(2,563,817)	32,020,306
Financial assets - held to maturity	14,760,506	(3,612)	14,756,894	13,379,340	(3,612)	13,375,729
Financial assets - held for trading	63,245	-	63,245	63,245	-	63,245
Financial assets - at fair value through profit or loss	15,131	-	15,131	15,131	-	15,131
Financial assets - available for sale	6,357,528	-	6,357,528	5,904,802	-	5,904,802
Positive fair value of derivatives	41,449	-	41,449	41,449	-	41,449
Contingent liabilities	7,785,596	(351,257)	-	7,776,646	(351,158)	-
Total	**68,143,146**	**(3,088,640)**	**57,620,166**	**64,846,409**	**(2,924,734)**	**54,496,186**

46. Risk management *(continued)*
46.5. Credit risk *(continued)*

Credit risk provisions comprise impairments for financial assets measured at amortised cost (including finance lease and trade receivables) and at fair value through other comprehensive income (FVOCI), as well as provisions for off-balance sheet exposures. Adjustments refer to the fair value changes of the carrying amount for financial assets at FVOCI.
The significant increase of off-balance sheet exposures results primarily from the first-time consideration of undrawn revocable loan commitments as impairment relevant.
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 exposure is categorized in the following way:

- exposure class and financial instruments;
- counterparty sector and financial instrument;
- industry and financial instrument;
- industry and IFRS 9 treatment;
- risk category;
- off-balance sheet exposure by product;
- industry and risk category;
- region and risk category;
- region and IFRS 9 treatment;
- business segment and risk category;
- business segment and risk category and IFRS 9 treatment;
- non-performing credit risk exposure by business segment and credit loss allowances;
- composition of credit loss allowances;
- credit risk exposure, forbearance exposure and credit loss allowances;
- types of forbearance exposure;
- business segment and collateral;
- financial instrument and collateral;
- credit risk exposure past due and not covered by credit loss specific allowances by financial instruments and collateralisation.

Credit risk breakdown by exposure class and financial instruments

The assignment of obligors to exposure classes is based on applicable EU regulatory capital rules (CRR). For reasons of clarity, individual exposure classes are aggregated in the tables below. In addition to central governments, central banks, international organisations, and multinational development banks, the aggregated exposure class 'sovereigns' contains regional and local governments as well as public sector entities. Institutions include banks and recognised investment firms.

Group

in RON thousands	Cash and cash balances - demand deposits to central banks and credit institutions	Debt instruments held for trading	Non-trading debt instruments at FVPL	Debt instruments at FVOCI	At amortised cost			Trade and other receivables	Finance lease receivables	Debt instru-ments held for sale in disposal groups	Positive fair value of hedge accounting derivatives	Off balance-sheet exposures	Total
					Debt securities	Loans and advances to banks	Loans and advances to customers						
						31.12.2018							
Sovereigns	-	182,903	-	5,119,693	15,891,322	511	2,500,855	24,213	727	-	-	753,815	24,474,039
Institutions	202,567	12,298	-	-	-	112,479	108,752	77,997	-	-	-	826,397	1,340,490
Corporates	-	18,764	5,920	5,005	-	11,133	11,034,783	555,382	617,398	-	-	9,296,095	21,544,479
Retail	-	-	-	-	-	-	23,266,960	37,351	394,712	-	-	1,430,609	25,129,632
Total	**202,567**	**213,965**	**5,920**	**5,124,698**	**15,891,322**	**124,123**	**36,911,350**	**694,943**	**1,012,837**	**-**	**-**	**12,306,915**	**72,488,640**

Group

in RON thousands	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			
				31.12.2017						
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	-	-	-	-	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**

46. Risk management *(continued)*

46.5. Credit risk *(continued)*

Bank

in RON thousands	Cash and cash balances - demand deposits to central banks and credit institutions	Debt instruments held for trading	Non-trading debt instruments at FVPL	Debt instruments at FVOCI	At amortised cost: Debt securities	At amortised cost: Loans and advances to banks	At amortised cost: Loans and advances to customers	Trade and other receivables	Finance lease receivables	Debt instruments held for sale in disposal groups	Positive fair value of hedge accounting derivatives	Off balance-sheet exposures	Total
							31.12.2018						
Sovereigns	-	182,903	-	5,084,615	14,306,813	510	2,500,853	24,210	-	-	-	753,815	22,853,720
Institutions	146,789	12,298	-	-	-	380,168	108,817	78,165	-	-	-	1,036,817	1,763,054
Corporates	-	18,891	5,920	5,005	-	11,133	10,862,069	532,141	-	-	-	9,416,244	20,851,403
Retail	-	-	-	-	-	-	22,554,936	28,633	-	-	-	1,411,618	23,995,187
Total	**146,789**	**214,092**	**5,920**	**5,089,620**	**14,306,813**	**391,811**	**36,026,675**	**663,148**	**-**	**-**	**-**	**12,618,495**	**69,463,364**

Bank

in RON thousands	Other demand deposits	Loans and advances to credit institutions	Loans and advances to customers	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 instruments	Contingent credit liabilities	Credit risk exposure
				31.12.2017						
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	-	-	-	-	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 risk exposure by counterparty sector and financial instrument

Group

in RON thousands	Cash and cash balances - demand deposits to central banks and credit	Debt instruments held for trading	Non-trading debt instruments at FVPL	Debt instruments at FVOCI	At amortised cost: Debt securities	At amortised cost: Loans and advances to banks	At amortised cost: Loans and advances to customers	Trade and other receivables	Finance lease receivables	Debt instruments held for sale in disposal groups	Positive fair value of hedge accounting derivatives	Off balance-sheet exposures	Total
							31.12.2018						
Central banks	-	-	-	13,588	-	510	-	-	-	-	-	-	14,098
General governments	-	182,903	-	5,106,105	15,891,322	-	2,824,397	25,941	727	-	-	2,076,641	26,108,036
Credit institutions	202,567	-	-	-	-	123,613	-	72,528	-	-	-	643,530	1,042,239
Other financial corporations	-	-	-	-	-	-	174,891	45,898	15,803	-	-	201,841	438,433
Non-financial corporations	-	31,062	5,920	5,005	-	-	11,269,103	507,745	967,845	-	-	8,234,294	21,020,974
Households	-	-	-	-	-	-	22,642,959	42,831	28,462	-	-	1,150,609	23,864,861
Total	**202,567**	**213,965**	**5,920**	**5,124,698**	**15,891,322**	**124,123**	**36,911,350**	**694,943**	**1,012,837**	**-**	**-**	**12,306,915**	**72,488,640**

Bank

in RON thousands	Cash and cash balances - demand deposits to central banks and credit	Debt instruments held for trading	Non-trading debt instruments at FVPL	Debt instruments at FVOCI	At amortised cost: Debt securities	At amortised cost: Loans and advances to banks	At amortised cost: Loans and advances to customers	Trade and other receivables	Finance lease receivables	Debt instruments held for sale in disposal groups	Positive fair value of hedge accounting derivatives	Off balance-sheet exposures	Total
							31.12.2018						
Central banks	-	-	-	-	-	510	-	-	-	-	-	-	510
General governments	-	182,903	-	5,084,615	14,306,813	-	2,824,395	25,938	-	-	-	2,076,641	24,501,306
Credit institutions	146,789	-	-	-	-	391,301	-	72,697	-	-	-	853,951	1,464,737
Other financial corporations	-	-	-	-	-	-	436,460	45,655	-	-	-	258,050	740,165
Non-financial corporations	-	31,189	5,920	5,005	-	-	10,430,851	476,271	-	-	-	8,287,082	19,236,318
Households	-	-	-	-	-	-	22,334,969	42,588	-	-	-	1,142,771	23,520,328
Total	**146,789**	**214,092**	**5,920**	**5,089,620**	**14,306,813**	**391,811**	**36,026,675**	**663,148**	**-**	**-**	**-**	**12,618,495**	**69,463,364**

46. Risk management *(continued)*
46.5. Credit risk *(continued)*

Credit risk exposure by industry and financial instrument

Group

in RON thousands	Cash and cash balances - demand deposits to central banks and credit institutions	Debt instruments held for trading	Non-trading debt instruments at FVPL	Debt instruments at FVOCI	At amortised cost: Debt securities	At amortised cost: Loans and advances to banks	At amortised cost: Loans and advances to customers	Trade and other receivables	Finance lease receivables	Debt instruments held for sale in disposal groups	Positive fair value of hedge accounting derivatives	Off balance-sheet exposures	Total
							31.12.2018						
Agriculture and forestry	-	373	-	-	-	-	608,310	2,754	104,253	-	-	152,454	868,144
Mining	-	-	-	-	-	-	110,622	37,820	17,577	-	-	1,533,420	1,699,439
Manufacturing	-	6,985	4,208	-	-	-	4,039,515	216,257	167,464	-	-	1,873,910	6,308,339
Energy and water supply	-	1,104	-	-	-	-	610,594	21,784	37,411	-	-	556,039	1,226,932
Construction	-	1,134	-	-	-	-	1,145,695	113,223	97,522	-	-	1,971,897	3,329,471
Development of building projects	-	-	-	-	-	-	-	-	-	-	-	-	-
Trade	-	1,682	-	-	-	-	2,088,354	54,672	169,960	-	-	2,126,547	4,441,215
Transport and communication	-	2,450	1,638	6,017	-	-	1,343,229	27,493	268,161	-	-	522,602	2,171,590
Hotels and restaurants	-	-	-	-	-	-	57,841	639	16,926	-	-	24,083	99,489
Financial and insurance services	202,567	12,298	-	-	-	124,123	267,901	105,670	12,146	-	-	990,245	1,714,949
Holding companies	-	-	-	-	-	-	-	-	-	-	-	-	-
Real estate and housing	-	5,014	-	-	-	-	1,010,151	2,299	5,924	-	-	142,107	1,165,494
Services	-	23	74	-	-	-	356,892	25,669	85,816	-	-	265,977	734,450
Public administration	-	182,903	-	5,118,681	15,891,322	-	2,503,061	25,420	845	-	-	927,424	24,649,657
Education, health and art	-	-	-	-	-	-	145,597	451	15,339	-	-	81,620	243,007
Households	-	0	-	-	-	-	22,623,589	60,778	13,493	-	-	1,138,590	23,836,451
Other	-	-	-	-	-	-	-	14	-	-	-	-	14
Total	**202,567**	**213,965**	**5,920**	**5,124,698**	**15,891,322**	**124,123**	**36,911,350**	**694,943**	**1,012,837**	**-**	**-**	**12,306,915**	**72,488,640**

Group

in RON thousands	Cash and cash balances – other demand deposits	At amortised cost: Loans and receivables to credit institutions	At amortised cost: Loans and receivables to customers	Debt securities: Financial assets - held to maturity	At fair value: Debt securities: Financial assets - held for trading	At fair value: Debt securities: Financial assets - at fair value through profit or loss	At fair value: Debt securities: Financial assets - available for sale	At fair value: Positive fair value of derivatives	Contingent liabilities	Total credit risk exposure
					31.12.2017					
Agriculture and forestry	-	-	637,811	-	-	-	-	12	108,239	746,062
Mining	-	-	244,706	-	-	-	-	-	1,330,310	1,575,016
Manufacturing	-	-	4,385,604	-	-	-	-	5,334	819,058	5,209,996
Energy and water supply	-	-	939,867	-	-	-	-	1,476	238,923	1,180,266
Construction	-	-	1,343,971	-	-	-	-	1,030	1,239,087	2,584,087
Development of building projects	-	-	525,318	-	-	-	-	1,011	42,298	568,627
Trade	-	-	1,951,653	-	-	-	-	902	1,834,984	3,787,539
Transport and communication	-	-	1,566,954	-	-	-	-	2,268	59,150	1,628,372
Hotels and restaurants	-	-	65,893	-	-	-	-	-	1,996	67,889
Financial and insurance services	679,924	2,221,260	426,139	-	-	-	-	24,641	459,564	3,811,528
Holding companies	-	-	159,025	-	-	-	-	-	23,532	182,557
Real estate and housing	-	-	840,960	-	-	-	-	5,769	2,320	849,049
Services	-	-	407,799	-	-	-	-	17	109,632	517,448
Public administration	-	-	3,231,138	14,760,506	63,245	15,131	6,357,528	-	352,722	24,780,271
Education, health and art	-	-	152,518	-	-	-	-	-	35,610	188,128
Households	-	-	20,023,484	-	-	-	-	-	1,194,001	21,217,484
Other	-	-	11	-	-	-	-	-	-	11
Total	**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**

Bank

in RON thousands	Cash and cash balances - demand deposits to central banks and credit	Debt instruments held for trading	Non-trading debt instruments at FVPL	Debt instruments at FVOCI	At amortised cost: Debt securities	At amortised cost: Loans and advances to banks	At amortised cost: Loans and advances to customers	Trade and other receivables	Finance lease receivables	Debt instruments held for sale in disposal groups	Positive fair value of hedge accounting derivatives	Off balance-sheet exposures	Total
							31.12.2018						
Agriculture and forestry	-	373	-	-	-	-	521,048	1,772	-	-	-	151,386	674,580
Mining	-	-	-	-	-	-	107,075	37,791	-	-	-	1,533,420	1,678,286
Manufacturing	-	6,985	4,208	-	-	-	3,964,168	212,785	-	-	-	1,870,724	6,058,870
Energy and water supply	-	1,104	-	-	-	-	608,276	21,724	-	-	-	555,965	1,187,069
Construction	-	1,134	-	-	-	-	1,113,809	112,519	-	-	-	1,977,109	3,204,571
Development of building projects	-	-	-	-	-	-	-	-	-	-	-	-	-
Trade	-	1,682	-	-	-	-	1,872,068	49,080	-	-	-	2,119,534	4,042,364
Transport and communication	-	2,450	1,638	6,017	-	-	884,659	16,630	-	-	-	533,391	1,444,785
Hotels and restaurants	-	-	-	-	-	-	47,665	577	-	-	-	24,083	72,325
Financial and insurance services	146,789	12,424	-	-	-	391,811	530,727	105,831	-	-	-	1,285,955	2,473,537
Holding companies	-	-	-	-	-	-	-	-	-	-	-	-	-
Real estate and housing	-	5,014	-	-	-	-	998,282	1,735	-	-	-	142,107	1,147,137
Services	-	23	74	-	-	-	407,878	16,258	-	-	-	284,636	708,869
Public administration	-	182,903	-	5,083,603	14,306,813	-	2,503,059	25,417	-	-	-	927,424	23,029,221
Education, health and art	-	-	-	-	-	-	144,813	416	-	-	-	81,620	226,850
Households	-	0	-	-	-	-	22,323,148	60,604	-	-	-	1,131,141	23,514,893
Other	-	-	-	-	-	-	-	9	-	-	-	-	9
Total	**146,789**	**214,092**	**5,920**	**5,089,620**	**14,306,813**	**391,811**	**36,026,675**	**663,148**	**-**	**-**	**-**	**12,618,495**	**69,463,364**

46. Risk management *(continued)*

46.5. Credit risk *(continued)*

Bank

in RON thousands	Cash and cash balances – other demand deposits	Loans and receivables to credit institutions	Loans and receivables to customers	Debt securities: Financial assets - held to maturity	Debt securities: Financial assets - held for trading	Debt securities: Financial assets - at fair value through profit or loss	Debt securities: Financial assets - available for sale	Positive fair value of derivatives	Contingent liabilities	Total credit risk exposure
		At amortised cost			At fair value					
					31.12.2017					
Agriculture and forestry	-	-	485,497	-	-	-	-	12	94,974	580,483
Mining	-	-	222,166	-	-	-	-	-	1,330,310	1,552,476
Manufacturing	-	-	4,186,050	-	-	-	-	5,334	809,224	5,000,608
Energy and water supply	-	-	903,665	-	-	-	-	1,476	238,923	1,144,065
Construction	-	-	1,231,816	-	-	-	-	1,030	1,236,833	2,469,679
Development of building projects	-	-	525,318	-	-	-	-	1,011	42,298	568,627
Trade	-	-	1,593,971	-	-	-	-	902	1,818,331	3,413,204
Transport and communication	-	-	994,632	-	-	-	-	2,268	80,640	1,077,540
Hotels and restaurants	-	-	42,645	-	-	-	-	-	1,275	43,921
Financial and insurance services	655,489	2,426,183	678,193	-	-	-	-	24,641	472,671	4,257,177
Holding companies	-	-	159,025	-	-	-	-	-	23,532	182,557
Real estate and housing	-	-	818,784	-	-	-	-	5,769	2,320	826,873
Services	-	-	321,141	-	-	-	-	17	111,908	433,066
Public administration	-	-	3,230,859	13,379,340	63,245	15,131	5,904,802	-	352,722	22,946,100
Education, health and art	-	-	138,131	-	-	-	-	-	35,607	173,739
Households	-	-	19,736,562	-	-	-	-	-	1,190,905	20,927,467
Other	-	-	11	-	-	-	-	-	-	11
Total	**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 risk exposure by industry and IFRS 9 treatment

Group

in RON thousands	Stage 1	Stage 2	Stage 3	POCI	Credit risk exposure (AC and FVOCI)	Not subject to IFRS 9 impairment	Total
				31.12.2018			
Agriculture and forestry	620,538	213,814	29,369	4,048	867,770	373	868,144
Mining	1,512,427	2,491	93,337	91,184	1,699,439	-	1,699,439
Manufacturing	4,803,705	1,109,688	281,058	102,695	6,297,146	11,193	6,308,339
Energy and water supply	937,679	210,747	61,059	16,344	1,225,828	1,104	1,226,932
Construction	2,093,806	548,735	646,735	39,060	3,328,337	1,134	3,329,471
Development of building projects	-	-	-	-	-	-	-
Trade	4,197,564	191,536	41,216	9,217	4,439,533	1,682	4,441,215
Transport and communication	1,987,709	112,901	62,388	4,505	2,167,502	4,088	2,171,590
Hotels and restaurants	64,710	15,206	13,652	5,922	99,489	-	99,489
Financial and insurance services	1,552,661	114,783	22,441	-	1,689,885	25,130	1,715,014
Holding companies	-	-	-	-	-	-	-
Real estate and housing	1,052,534	33,243	38,348	36,355	1,160,481	5,014	1,165,494
Services	588,476	65,481	74,597	5,800	734,353	97	734,450
Public administration	23,426,216	1,018,872	6,754	14,912	24,466,754	182,903	24,649,657
Education, health and art	237,379	4,959	668	-	243,007	-	243,007
Households	21,368,652	1,262,052	910,256	295,426	23,836,386	-	23,836,386
Other	5	9	-	-	14	-	14
Total	**64,444,061**	**4,904,517**	**2,281,878**	**625,467**	**72,255,924**	**232,717**	**72,488,640**

46. Risk management *(continued)*
46.5. Credit risk *(continued)*

Bank							
in RON thousands	Stage 1	Stage 2	Stage 3	POCI	Credit risk exposure (AC and FVOCI)	Not subject to IFRS 9 impairment	Total
				31.12.2018			
Agriculture and forestry	442,833	200,923	26,402	4,048	674,207	373	674,580
Mining	1,492,204	2,396	92,503	91,184	1,678,286	-	1,678,286
Manufacturing	4,566,839	1,100,817	277,326	102,695	6,047,677	11,193	6,058,870
Energy and water supply	901,458	207,204	60,960	16,344	1,185,965	1,104	1,187,069
Construction	1,986,328	536,796	641,253	39,060	3,203,436	1,134	3,204,571
Development of building projects	-	-	-	-	-	-	-
Trade	3,821,024	180,781	29,659	9,217	4,040,682	1,682	4,042,364
Transport and communication	1,345,113	49,582	41,497	4,505	1,440,697	4,088	1,444,785
Hotels and restaurants	43,248	13,322	9,834	5,922	72,325	-	72,325
Financial and insurance services	2,269,913	155,992	22,441	-	2,448,346	25,256	2,473,602
Holding companies	-	-	-	-	-	-	-
Real estate and housing	1,045,098	32,871	27,799	36,355	1,142,123	5,014	1,147,137
Services	571,306	58,271	73,396	5,800	708,772	97	708,869
Public administration	21,805,820	1,018,832	6,754	14,912	22,846,318	182,903	23,029,221
Education, health and art	222,849	3,825	176	-	226,850	-	226,850
Households	21,116,264	1,257,862	845,307	295,395	23,514,828	-	23,514,828
Other	-	9	-	-	9	-	9
Total	**61,630,297**	**4,819,482**	**2,155,307**	**625,436**	**69,230,521**	**232,844**	**69,463,364**

Credit risk exposure by risk category

Group					
in RON thousands	Low risk	Management attention	Substandard	Non-performing	Total
31.12.2018	60,537,421	6,927,551	2,213,508	2,810,160	72,488,640
Share of credit risk exposure	83.5%	9.6%	3.1%	3.9%	100.0%
31.12.2017	55,724,852	8,170,379	849,954	3,397,961	68,143,146
Share of credit risk exposure	81.8%	12.0%	1.2%	5.0%	100.0%

Bank					
in RON thousands	Low risk	Management attention	Substandard	Non-performing	Total
31.12.2018	58,023,548	6,464,716	2,314,408	2,660,692	69,463,364
Share of credit risk exposure	83.5%	9.3%	3.3%	3.8%	100.0%
31.12.2017	53,281,593	7,528,820	839,869	3,196,127	64,846,409
Share of credit risk exposure	82.2%	11.6%	1.3%	4.9%	100.0%

From 31 December 2017 to 31 December 2018, the share of credit risk exposure in the low risk category increased, while non-performing exposure dropped significantly by 17.3% in case of BCR Group, respectively by 16.8% in case of the BCR Bank in 2018 as compared with 2017, from RON 3,397,961 thousands in 2017 to RON 2,810,160 thousands in 2018 in case of BCR Group and from RON 3,196,127 thousands in 2017 to RON 2,660,692 thousands in 2018 in case of BCR Bank. The decrease in the weakest risk category is due to intensified cash recoveries and the implementation of the write-offs and sales performed in 2018.

Contingent liabilities / Off balance-sheet exposures by product

	Group	Bank
in RON thousands	31.12.2018	31.12.2018
Financial guarantees	3,587,084	3,613,353
Loan commitments	8,706,999	8,992,310
Other commitments	12,832	12,832
Total	**12,306,915**	**12,618,495**

	Group	Bank
in RON thousands	31.12.2017	31.12.2017
Financial guarantees	3,014,797	3,045,642
Irrevocable commitments	4,770,800	4,731,003
Total	**7,785,596**	**7,776,646**

46. Risk management *(continued)*
46.5. Credit risk *(continued)*

Credit risk exposure by industry and risk category

Group

in RON thousands	Low risk	Management attention	Substandard	Non-performing	Total
			31.12.2018		
Agriculture and forestry	455,271	354,006	25,466	33,401	868,144
Mining	1,471,753	41,722	1,444	184,521	1,699,439
Manufacturing	3,522,051	1,799,387	598,991	387,910	6,308,339
Energy and water supply	734,595	294,407	117,380	80,550	1,226,932
Construction	1,583,049	715,933	361,448	669,041	3,329,471
Development of building projects	-	-	-	-	-
Trade	3,041,073	1,269,227	80,472	50,443	4,441,215
Transport and communication	1,727,962	348,632	26,481	68,514	2,171,590
Hotels and restaurants	65,479	10,090	4,347	19,573	99,489
Financial and insurance services	1,654,641	23,178	14,754	22,441	1,715,014
Holding companies	-	-	-	-	-
Real estate and housing	1,006,882	60,993	20,783	76,837	1,165,494
Services	451,132	182,883	19,958	80,478	734,450
Public administration	24,312,535	115,150	192,353	29,619	24,649,657
Education, health and art	130,912	106,645	4,782	668	243,007
Households	20,380,082	1,605,299	744,840	1,106,164	23,836,386
Other	5	-	9	-	14
Total	**60,537,421**	**6,927,551**	**2,213,508**	**2,810,160**	**72,488,640**

Group

in RON thousands	Low risk	Management attention	Substandard	Non-performing	Total
			31.12.2017		
Agriculture and forestry	478,008	185,700	40,580	41,774	746,062
Mining	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
Energy and water supply	886,260	136,305	17,602	140,099	1,180,266
Construction	1,155,220	383,009	448,550	597,308	2,584,087
Development of building projects	491,031	8,231	6	69,360	568,627
Trade	2,673,900	941,349	13,561	158,730	3,787,539
Transport and communication	1,120,501	415,751	7,257	84,863	1,628,372
Hotels and restaurants	44,857	8,038	430	14,564	67,889
Financial and insurance services	3,682,221	89,685	1,621	38,000	3,811,528
Holding companies	182,522	35	-	-	182,557
Real estate and housing	705,471	34,960	9,633	98,986	849,049
Services	359,618	63,130	73,402	21,298	517,448
Public administration	24,439,625	300,255	4	40,386	24,780,271
Education, health and art	30,287	154,119	2,298	1,424	188,128
Private households	15,863,712	3,941,172	123,522	1,289,079	21,217,484
Other	-	11	-	-	11
Total	**55,724,852**	**8,170,379**	**849,954**	**3,397,961**	**68,143,146**

Bank

in RON thousands	Low risk	Management attention	Substandard	Non-performing	Total
			31.12.2018		
Agriculture and forestry	321,658	298,712	23,776	30,433	674,580
Mining	1,452,630	40,526	1,444	183,686	1,678,286
Manufacturing	3,349,463	1,729,698	595,531	384,178	6,058,870
Energy and water supply	699,798	289,845	116,975	80,450	1,187,069
Construction	1,487,208	692,583	361,221	663,559	3,204,571
Development of building projects	-	-	-	-	-
Trade	2,686,165	1,239,798	77,516	38,886	4,042,364
Transport and communication	1,159,282	203,706	34,173	47,624	1,444,785
Hotels and restaurants	45,545	8,676	2,348	15,756	72,325
Financial and insurance services	2,312,909	13,239	125,013	22,441	2,473,602
Holding companies	-	-	-	-	-
Real estate and housing	1,000,463	59,924	20,463	66,287	1,147,137
Services	445,696	166,907	16,989	79,277	708,869
Public administration	22,809,542	20,571	192,353	6,754	23,029,221
Education, health and art	119,413	103,297	3,963	176	226,850
Households	20,133,774	1,597,234	742,636	1,041,183	23,514,828
Other	-	-	9	-	9
Total	**58,023,548**	**6,464,716**	**2,314,408**	**2,660,692**	**69,463,364**

46. Risk management *(continued)*
46.5. Credit risk *(continued)*

Bank					
in RON thousands	Low risk	Management attention	Substandard	Non-performing	Total
			31.12.2017		
Agriculture and forestry	398,233	107,033	36,111	39,106	580,483
Mining	1,297,421	595	1	254,460	1,552,476
Manufacturing	2,889,895	1,402,861	106,745	601,106	5,000,608
Energy and water supply	867,193	133,388	17,596	125,888	1,144,065
Construction	1,080,395	356,498	443,040	589,746	2,469,679
Development of building projects	491,031	8,231	6	69,360	568,627
Trade	2,489,991	770,304	11,586	141,323	3,413,204
Transport and communication	768,733	219,907	22,827	66,073	1,077,540
Hotels and restaurants	29,717	2,876	245	11,083	43,921
Financial and insurance services	4,077,831	141,337	8	38,000	4,257,177
Holding companies	182,522	35	-	-	182,557
Real estate and housing	699,203	29,427	9,495	88,748	826,873
Services	295,502	49,384	68,654	19,526	433,066
Public administration	22,698,727	227,121	4	20,249	22,946,100
Education, health and art	20,378	151,791	971	598	173,739
Private households	15,668,372	3,936,287	122,585	1,200,222	20,927,467
Other	-	11	-	-	11
Total	**53,281,593**	**7,528,820**	**839,869**	**3,196,127**	**64,846,409**

Credit risk exposure by region and risk category

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 Romania with RON 6,259,767 thousands from RON 64,998,995 thousands in 2017 to RON 71,258,761 thousands in 2018 in case of BCR Group.
The increase in exposure in main market - Romania registered at Group level is also observed at Bank level: increase with RON 6,584,764 thousands from RON 61,990,601 thousands in 2017 to RON 68,575,364 thousands in 2018. The share of emerging markets remained of minor importance.

Group					
in RON thousands	Low risk	Management attention	Substandard	Non-performing	Total
			31.12.2018		
Core markets	**60,102,986**	**6,735,969**	**2,197,165**	**2,533,478**	**71,569,598**
Austria	243,942	191	125	62,006	306,264
Croatia	-	-	0	-	0
Romania	59,854,949	6,735,777	2,196,566	2,471,469	71,258,761
Serbia	280	-	-	-	281
Slovakia	30	-	-	-	30
Czech Republic	3,786	-	-	-	3,786
Hungary	-	-	473	3	476
Other EU	**281,933**	**52,672**	**383**	**258,248**	**593,236**
Other industrialised countries	**3,592**	**5**	**7,604**	**623**	**11,824**
Emerging markets	**148,909**	**138,907**	**8,356**	**17,811**	**313,983**
Southeastern Europe/CIS	147,158	138,885	1,923	17,605	305,571
Asia	1,092	9	418	-	1,518
Latin America	80	-	6,004	-	6,084
Middle East/Africa	579	13	12	206	810
Total	**60,537,421**	**6,927,551**	**2,213,508**	**2,810,160**	**72,488,640**

Group					
in RON thousands	Low risk	Management attention	Substandard	Non-performing	Total
			31.12.2017		
Core markets	**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
Romania	53,041,982	8,021,763	639,270	3,295,980	64,998,995
Serbia	-	29	-	-	29
Slovakia	30	-	-	-	30
Czech Republic	2,955	10	-	-	2,965
Hungary	15	8	-	2	25
Other EU	**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**

46. Risk management *(continued)*

46.5. Credit risk *(continued)*

Bank

in RON thousands	Low risk	Management attention	Substandard	Non-performing	Total
			31.12.2018		
Core markets	**57,730,551**	**6,402,678**	**2,299,967**	**2,401,589**	**68,834,786**
Austria	192,526	191	125	62,006	254,848
Croatia	-	-	0	-	0
Romania	57,533,929	6,402,487	2,299,368	2,339,580	68,575,364
Serbia	280	-	-	-	281
Slovakia	30	-	-	-	30
Czech Republic	3,786	-	-	-	3,786
Hungary	-	-	473	3	476
Other EU	**281,933**	**52,672**	**382**	**258,248**	**593,235**
Other industrialised countries	**3,592**	**5**	**7,604**	**623**	**11,824**
Emerging markets	**7,471**	**9,361**	**6,455**	**232**	**23,520**
Southeastern Europe/CIS	5,720	9,340	22	27	15,108
Asia	1,092	9	418	-	1,518
Latin America	80	-	6,004	-	6,084
Middle East/Africa	579	13	12	206	810
Total	**58,023,548**	**6,464,716**	**2,314,408**	**2,660,692**	**69,463,364**

Bank

in RON thousands	Low risk	Management attention	Substandard	Non-performing	Total
			31.12.2017		
Core markets	**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
Romania	50,718,994	7,513,448	633,474	3,124,686	61,990,601
Serbia	-	29	-	-	29
Slovakia	30	-	-	-	30
Czech Republic	2,955	10	-	-	2,965
Hungary	15	8	-	2	25
Other EU	**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	-	-	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**

Credit risk exposure by region and IFRS 9 treatment

Group

in RON thousands	Stage 1	Stage 2	Stage 3	POCI	Credit risk exposure (AC and FVOCI)	Not subject to IFRS 9 impairment	Total
				31.12.2018			
Core markets	**63,840,501**	**4,866,282**	**2,005,764**	**624,334**	**71,336,882**	**232,717**	**71,569,598**
Austria	219,322	125	62,006	-	281,453	24,811	306,264
Croatia	-	-	-	-	-	-	-
Romania	63,617,082	4,865,684	1,943,756	624,334	71,050,856	207,905	71,258,761
Serbia	280	-	-	-	281	-	281
Slovakia	30	-	-	-	30	-	30
Czech Republic	3,786	-	-	-	3,786	-	3,786
Hungary	1	472	3	-	476	-	476
Other EU	**326,900**	**7,523**	**257,680**	**1,133**	**593,236**	**-**	**593,236**
Other industrialised countries	**11,097**	**103**	**623**	**-**	**11,823**	**-**	**11,823**
Emerging markets	**265,562**	**30,610**	**17,811**	**-**	**313,983**	**-**	**313,983**
Southeastern Europe/CIS	257,741	30,224	17,605	-	305,571	-	305,571
Asia	1,147	371	-	-	1,518	-	1,518
Latin America	6,083	1	-	-	6,084	-	6,084
Middle East/Africa	591	14	206	-	810	-	810
Total	**64,444,061**	**4,904,517**	**2,281,878**	**625,467**	**72,255,924**	**232,717**	**72,488,640**

46. Risk management *(continued)*
46.5. Credit risk *(continued)*

Bank

in RON thousands	Stage 1	Stage 2	Stage 3	POCI	Credit risk exposure (AC and FVOCI)	Not subject to IFRS 9 impairment	Total
				31.12.2018			
Core markets	**61,272,680**	**4,808,188**	**1,896,771**	**624,303**	**68,601,942**	**232,844**	**68,834,786**
Austria	167,906	125	62,006	-	230,037	24,811	254,848
Croatia	-	-	-	-	-	-	-
Romania	61,100,677	4,807,590	1,834,762	624,303	68,367,332	208,032	68,575,364
Serbia	280	-	-	-	281	-	281
Slovakia	30	-	-	-	30	-	30
Czech Republic	3,786	-	-	-	3,786	-	3,786
Hungary	1	472	3	-	476	-	476
Other EU	**326,900**	**7,522**	**257,680**	**1,133**	**593,236**	**-**	**593,236**
Other industrialised countries	**11,097**	**103**	**623**	**-**	**11,823**	**-**	**11,823**
Emerging markets	**19,619**	**3,668**	**232**	**-**	**23,520**	**-**	**23,520**
Southeastern Europe/CIS	11,799	3,283	27	-	15,108	-	15,108
Asia	1,147	371	-	-	1,518	-	1,518
Latin America	6,083	1	-	-	6,084	-	6,084
Middle East/Africa	591	14	206	-	810	-	810
Total	**61,630,297**	**4,819,482**	**2,155,307**	**625,436**	**69,230,521**	**232,844**	**69,463,364**

The defaulted part of POCI amounted to RON 459,920 thousands in BCR Group, while the non-defaulted part to RON 165,547 thousands. The majority of POCI amounts are registered in Bank, the defaulted value being RON 459,889 thousands and the non-defaulted amount – RON 165,547 thousands.

Credit risk exposure by business segment and risk category

Group

in RON thousands	Low risk	Management attention	Substandard	Non-performing	Total
			31.12.2018		
Retail	**22,322,177**	**1,497,382**	**828,669**	**1,167,725**	**25,815,953**
Retail	22,322,177	1,497,382	828,669	1,167,725	25,815,953
Corporates	**17,453,635**	**5,242,025**	**1,368,612**	**1,627,233**	**25,691,505**
Small and Medium Enterprises	4,471,228	3,012,717	304,913	418,785	8,207,643
Group Large Corporates	4,725,904	558,384	212,509	333,371	5,830,169
Local Large Corporates	1,044,497	1,351,191	621,767	819,482	3,836,938
Public Sector	5,085,915	274,267	227,909	15,256	5,603,347
Commercial Real Estate	2,126,091	45,467	1,513	40,339	2,213,410
Group Markets	**1,201,840**	**3,028**	**24**	**-**	**1,204,891**
Group Markets - Trading	216,904	214	-	-	217,118
Group Markets - Financial Institutions	984,935	2,814	24	-	987,773
Asset/Liability Management and Local Corporate Center	**19,559,769**	**185,116**	**16,204**	**15,202**	**19,776,291**
Asset/Liability Management	19,546,448	1,862	1,125	4,507	19,553,941
Corporate Center	13,322	183,254	15,079	10,695	222,349
Total	**60,537,421**	**6,927,551**	**2,213,508**	**2,810,160**	**72,488,640**

Group

in RON thousands	Low risk	Management attention	Substandard	Non-performing	Total
			31.12.2017		
Retail	**17,925,687**	**3,735,738**	**123,070**	**1,357,015**	**23,141,509**
Retail	17,925,687	3,735,738	123,070	1,357,015	23,141,509
Corporates	**15,016,407**	**4,073,070**	**723,616**	**2,033,778**	**21,846,872**
Small and Medium Enterprises	3,148,852	2,279,980	174,340	588,911	6,192,083
Group Large Corporates	4,070,108	300,667	232,088	62,578	4,665,442
Local Large Corporates	1,026,906	1,163,406	301,798	1,302,940	3,795,050
Public Sector	5,422,392	327,005	9,155	2,654	5,761,207
Commercial Real Estate	1,348,149	2,012	6,235	76,694	1,433,090
Group Markets	**2,485,504**	**16,901**	**3,267**	**-**	**2,505,672**
Group Markets - Trading	1,944,212	5,483	3,267	-	1,952,962
Group Markets - Financial Institutions	541,292	11,418	-	-	552,710
Asset/Liability Management and Local Corporate Center	**20,297,254**	**344,670**	**-**	**7,168**	**20,649,093**
Asset/Liability Management	19,745,174	50,007	-	806	19,795,986
Corporate Center	552,081	294,663	-	6,362	853,106
Total	**55,724,852**	**8,170,379**	**849,954**	**3,397,961**	**68,143,146**

46. Risk management *(continued)*
46.5. Credit risk *(continued)*

Bank

in RON thousands	Low risk	Management attention	Substandard	Non-performing	Total
			31.12.2018		
Retail	**20,594,302**	**1,493,103**	**828,019**	**1,078,891**	**23,994,316**
Retail	20,594,302	1,493,103	828,019	1,078,891	23,994,316
Corporates	**15,853,670**	**4,773,752**	**1,359,403**	**1,563,827**	**23,550,652**
Small and Medium Enterprises	2,871,262	2,544,443	287,011	355,379	6,058,095
Group Large Corporates	4,725,904	558,384	212,509	333,371	5,830,169
Local Large Corporates	1,044,497	1,351,191	630,461	819,482	3,845,631
Public Sector	5,085,915	274,267	227,909	15,256	5,603,347
Commercial Real Estate	2,126,091	45,467	1,513	40,339	2,213,410
Group Markets	**1,203,958**	**3,028**	**794**	**-**	**1,207,779**
Group Markets - Trading	217,031	214	-	-	217,245
Group Markets - Financial Institutions	986,927	2,814	794	-	990,535
Asset/Liability Management and Local Corporate Center	**20,371,618**	**194,833**	**126,193**	**17,974**	**20,710,617**
Asset/Liability Management	20,352,542	1,862	111,021	4,507	20,469,933
Corporate Center	19,076	192,971	15,172	13,466	240,685
Total	**58,023,548**	**6,464,716**	**2,314,408**	**2,660,692**	**69,463,364**

Bank

in RON thousands	Low risk	Management attention	Substandard	Non-performing	Total
			31.12.2017		
Retail	**16,007,563**	**3,735,738**	**123,070**	**1,242,350**	**21,108,720**
Retail	16,007,563	3,735,738	123,070	1,242,350	21,108,720
Corporates	**14,057,830**	**3,355,422**	**713,531**	**1,943,962**	**20,070,745**
Small and Medium Enterprises	2,190,274	1,562,332	144,152	499,096	4,395,853
Group Large Corporates	4,070,108	300,667	232,088	62,578	4,665,442
Local Large Corporates	1,026,906	1,163,406	321,901	1,302,940	3,815,154
Public Sector	5,422,392	327,005	9,155	2,654	5,761,207
Commercial Real Estate	1,348,149	2,012	6,235	76,694	1,433,090
Group Markets	**2,489,601**	**18,489**	**3,267**	**-**	**2,511,358**
Group Markets - Trading	1,944,212	5,483	3,267	-	1,952,962
Group Markets - Financial Institutions	545,389	13,006	-	-	558,395
Asset/Liability Management and Local Corporate Center	**20,726,599**	**419,171**	**-**	**9,815**	**21,155,586**
Asset/Liability Management	20,174,522	114,090	-	806	20,289,418
Corporate Center	552,077	305,081	-	9,010	866,168
Total	**53,281,593**	**7,528,820**	**839,869**	**3,196,127**	**64,846,409**

Credit risk exposure by business segment and IFRS 9 treatment

Group

in RON thousands	Stage 1	Stage 2	Stage 3	POCI	Credit risk exposure (AC and FVOCI)	Not subject to IFRS 9 impairment	Total
				31.12.2018			
Retail	**23,244,113**	**1,327,329**	**946,777**	**297,735**	**25,815,953**	**-**	**25,815,953**
Retail	23,244,113	1,327,329	946,777	297,735	25,815,953	-	25,815,953
Corporates	**20,559,149**	**3,476,661**	**1,322,054**	**327,722**	**25,685,586**	**5,920**	**25,691,505**
Small and Medium Enterprises	6,863,498	909,607	328,709	101,621	8,203,434	4,208	8,207,643
Group Large Corporates	4,987,131	509,666	332,161	1,210	5,830,169	-	5,830,169
Local Large Corporates	2,033,670	983,795	605,590	212,171	3,835,226	1,712	3,836,938
Public Sector	4,503,287	1,072,085	15,256	12,719	5,603,347	-	5,603,347
Commercial Real Estate	2,171,563	1,508	40,338	-	2,213,410	-	2,213,410
Group Markets	**986,541**	**6,737**	**-**	**-**	**993,277**	**211,614**	**1,204,891**
Group Markets - Trading	30,315	-	-	-	30,315	186,803	217,118
Group Markets - Financial Institutions	956,225	6,737	-	-	962,962	24,811	987,773
Asset/Liability Management and Local Corporate Center	**19,654,259**	**93,791**	**13,048**	**10**	**19,761,108**	**15,183**	**19,776,291**
Asset/Liability Management	19,449,806	86,578	2,374	-	19,538,758	15,183	19,553,941
Corporate Center	204,452	7,213	10,673	10	222,349	-	222,349
Total	**64,444,061**	**4,904,517**	**2,281,878**	**625,467**	**72,255,924**	**232,717**	**72,488,640**

46. Risk management *(continued)*

46.5. Credit risk *(continued)*

Bank

in RON thousands	Stage 1	Stage 2	Stage 3	POCI	Credit risk exposure (AC and FVOCI)	Not subject to IFRS 9 impairment	Total
				31.12.2018			
Retail	**21,491,153**	**1,324,620**	**880,839**	**297,704**	**23,994,316**	**-**	**23,994,316**
Retail	21,491,153	1,324,620	880,839	297,704	23,994,316	-	23,994,316
Corporates	**18,610,465**	**3,347,898**	**1,258,648**	**327,722**	**23,544,732**	**5,920**	**23,550,652**
Small and Medium Enterprises	4,910,597	776,366	265,303	101,621	6,053,887	4,208	6,058,095
Group Large Corporates	4,987,131	509,666	332,161	1,210	5,830,169	-	5,830,169
Local Large Corporates	2,037,886	988,272	605,590	212,171	3,843,919	1,712	3,845,631
Public Sector	4,503,287	1,072,085	15,256	12,719	5,603,347	-	5,603,347
Commercial Real Estate	2,171,563	1,508	40,338	-	2,213,410	-	2,213,410
Group Markets	**989,302**	**6,737**	**-**	**-**	**996,039**	**211,741**	**1,207,779**
Group Markets - Trading	30,315	-	-	-	30,315	186,929	217,245
Group Markets - Financial Institutions	958,987	6,737	-	-	965,723	24,811	990,535
Asset/Liability Management and Local Corporate Center	**20,539,377**	**140,228**	**15,819**	**10**	**20,695,434**	**15,183**	**20,710,617**
Asset/Liability Management	20,321,226	131,149	2,374	-	20,454,749	15,183	20,469,933
Corporate Center	218,151	9,079	13,445	10	240,685	-	240,685
Total	**61,630,297**	**4,819,482**	**2,155,307**	**625,436**	**69,230,521**	**232,844**	**69,463,364**

Non-performing credit risk exposure and credit loss allowances

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 loss allowances (all stages combined) covered 94.9% (2017: 90.9%) in case of BCR Group and 95.5% (2017: 91.5%) in case of BCR stand-alone of the reported non-performing on-balance and off-balance credit risk exposure as of 31 December 2018. 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.

The following tables show the coverage of the non-performing credit risk exposure by credit loss allowances (without taking into consideration the collateral) as of 31 December 2018 and 31 December 2017.

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 calculated according to Group's internal definition by dividing total loss allowances by non-performing credit risk exposure. Collateral or other recoveries are not taken into account.

Group

in RON thousands	Non-performing		Credit risk exposure		Credit loss allowances	Collateral for NPE		NPE ratio		NPE coverage (excl. collateral)	NPE collateralization ratio	
	Total	AC and FVOCI	Total	AC and FVOCI	AC and FVOCI	Total	AC and FVOCI	Total	AC and FVOCI	AC and FVOCI	Total	AC and FVOCI
						31.12.2018						
Retail	1,167,725	1,167,725	25,815,953	25,815,953	(1,175,233)	348,080	348,080	4.52%	4.52%	100.64%	29.81%	29.81%
Corporates	1,627,233	1,621,314	25,691,505	25,685,586	(1,459,491)	518,598	511,157	6.33%	6.31%	90.02%	31.87%	31.53%
Group Markets	-	-	1,204,891	993,277	(638)	-	-	0.00%	0.00%	0.00%	0.00%	0.00%
Asset/Liability Management and Local Corporate Center	15,202	13,069	19,776,291	19,761,108	(23,633)	-	-	0.08%	0.07%	180.83%	0.00%	0.00%
Total	**2,810,160**	**2,802,108**	**72,488,640**	**72,255,924**	**(2,658,996)**	**866,678**	**859,237**	**3.88%**	**3.88%**	**94.89%**	**30.84%**	**30.66%**

46. Risk management *(continued)*
46.5. Credit risk *(continued)*

Group

in RON thousands	Total credit risk exposure						
	Non-performing	Credit risk exposure	Total credit risk provisions	Specific allowances & provisions	Collective allowances & provisions	NPE ratio	NPE coverage ratio
				31.12.2017			
Retail	1,357,015	23,141,509	(1,312,072)	(1,064,654)	(247,419)	5.86%	96.69%
Corporates	2,033,778	21,846,872	(1,755,770)	(1,287,023)	(468,747)	9.31%	86.33%
Group Markets	-	2,505,672	(671)	-	(671)	0.00%	0.00%
Asset/Liability Management and Local Corporate Center	7,168	20,649,093	(20,127)	(2,648)	(17,479)	0.03%	280.80%
Total	**3,397,961**	**68,143,146**	**(3,088,640)**	**(2,354,324)**	**(734,316)**	**4.99%**	**90.90%**

Bank

in RON thousands	Non-performing		Credit risk exposure		Credit loss allowances	Collateral for NPE		NPE ratio		NPE coverage (excl. collateral)	NPE collateralization ratio	
	Total	AC and FVOCI	Total	AC and FVOCI	AC and FVOCI	Total	AC and FVOCI	Total	AC and FVOCI	AC and FVOCI	Total	AC and FVOCI
						31.12.2018						
Retail	1,078,891	1,078,891	23,994,316	23,994,316	(1,109,109)	347,983	347,983	4.50%	4.50%	102.80%	32.25%	32.25%
Corporates	1,563,827	1,557,908	23,550,652	23,544,732	(1,395,260)	477,583	477,523	6.64%	6.62%	89.56%	30.54%	30.65%
Group Markets	-	-	1,207,779	996,039	(661)	-	-	0.00%	0.00%	0.00%	0.00%	0.00%
Asset/Liability Management and Local Corporate Center	17,974	15,841	20,710,617	20,695,434	(28,723)	-	-	0.09%	0.08%	181.32%	0.00%	0.00%
Total	**2,660,692**	**2,652,640**	**69,463,364**	**69,230,521**	**(2,533,752)**	**825,565**	**825,506**	**3.83%**	**3.83%**	**95.52%**	**31.03%**	**31.12%**

Bank

in RON thousands	Total credit risk exposure						
	Non-performing	Credit risk exposure	Total credit risk provisions	Specific allowances & provisions	Collective allowances & provisions	NPE ratio	NPE coverage ratio
				31.12.2017			
Retail	1,242,350	21,108,720	(1,217,384)	(971,825)	(245,559)	5.89%	97.99%
Corporates	1,943,962	20,070,745	(1,686,552)	(1,243,837)	(442,715)	9.69%	86.76%
Group Markets	-	2,511,358	(671)	-	(671)	0.00%	0.00%
Asset/Liability Management and Local Corporate Center	9,815	21,155,586	(20,127)	(2,648)	(17,479)	0.05%	205.05%
Total	**3,196,127**	**64,846,409**	**(2,924,734)**	**(2,218,310)**	**(706,424)**	**4.93%**	**91.51%**

The Expected Credit Loss (ECL) model

The general principles and standards for expected credit loss measurement are governed by internal policies, methodologies and procedures. According to IFRS 9, credit loss allowances are calculated for all components of the credit risk exposure which are measured at amortised cost (AC) or at fair value through other comprehensive income and include other demand deposits, debt securities, loans and advances to customers as well as finance lease and trade receivables. Provisions for loan commitments and financial guarantees are calculated if they meet the applicable IFRS 9 respective definitions.

According to the IFRS 9 there are three main stages outlined for expected credit loss (ECL) determination:

- A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months;

- If a significant increase in credit risk (SICR) since initial recognition is identified but the exposure is not yet deemed to be credit-impaired, the financial instrument is moved to Stage 2. Instruments in Stage 2 have their ECL measured based on lifetime expected credit losses arising from default events that are possible over the expected life of the instrument. In the case of drawings by non-defaulted customers on previously committed credit lines, depending on the development of credit risk between the commitment date and the drawing date, the whole exposure (on-balance and off-balance) is categorised as either Stage 1 or Stage 2.

46. Risk management *(continued)*
46.5. Credit risk *(continued)*

- If the financial instrument is considered credit-impaired, it is moved to Stage 3. Instruments in Stage 3 have their ECL measured based on lifetime expected credit losses;
- Purchased or originated credit-impaired (POCI) financial instruments are those financial instruments that are credit-impaired on initial recognition. Their ECL is always measured on LT basis.

The key judgments and assumptions adopted by the Group in addressing the requirements of the standard are presented below:

Significant increase in credit risk determination

In the area of expected credit loss (ECL) modelling and calculation of ensuing credit loss allowances (CLA), the Group has concluded that one of the key drivers of the impact from applying the ECL model required by IFRS 9 is the assessment of significant increase in credit risk (SICR) for exposures that are not identified as credit-impaired as at the date of initial application of IFRS 9 (for retrospective application) or as at any given reporting period after transition to IFRS 9 (for prospective application). In this respect, across portfolios and product types, quantitative and qualitative criteria are defined for assessing SICR, including the 30 days-past-due (DPD) criteria as a backstop.

Quantitative criteria

Quantitative SICR indicators include adverse changes in annualized lifetime probability of default and in lifetime probability of default with significance being assessed by reference to a mix of relative and absolute change thresholds. In order for SICR to occur for a particular financial instrument, both the relative and absolute thresholds need to be breached. The relative measure is calculated as a ratio between current annualized PD at reporting date and annualized PD value on initial recognition. These ratios are compared against limits set up as threshold for SICR assessment. The breach means that such ratio has reached or is higher than the established threshold. These relative thresholds for SICR assessment are established at PD segment level or client rating level for each consolidated entity, as necessary, and are subject to annual validation. The absolute threshold refers to differences of PD on initial recognition and PD as at reporting date. It is set to 50 bps and serves as a back-stop for migrations between the best ratings. In such cases relative thresholds may be breached however overall PD is very low, therefore SICR is not positively concluded.

Sensitivity of ECL to SICR threshold changes

Determining SICR implies using significant assumptions in measuring one year or lifetime default. The following table presents the sensitivity analysis of how changes in relative SICR thresholds would affect ECL for the Group. The sensitivity is calculated by adding / subtracting indicated values from the current threshold level. Effects of the threshold changes by +/- 0.5 and +/- 1 are shown, however the threshold is floored to 1 as values of the ratio below 1 indicate creditworthiness improvement (i.e. if threshold is 1.13 values used for sensitivity analysis for +/- 0.5 would decrease the threshold to 1 and increase of the threshold to 1.63).

Relative thresholds for SICR assessment by main geographical segments

Group

	Threshold intervals		Sensitivity analysis (RON thousands)			
			Threshold change +/- 0.5		Threshold change +/- 1	
	Min	Max	ECL impact increase*	ECL impact decrease*	ECL impact increase*	ECL impact decrease*
	31.12.2018					
Romania	1.13	3.36	(22,385)	25,183	(43,371)	44,770

* Increase/Decrease refers to increasing/lowering of threshold (i.e. current threshold equals 3.36 and sensitivity is 0.5, then increase refers to threshold of 3.86 and decrease to 2.86 – therefore increase leads to release of ECL and decrease to additional ECL. Minimal threshold of 1.13 refers to sovereign rating classes.

There are certain portfolios where SICR quantitative criteria are assessed based on the rating changes rather than PD changes. Main rule implemented is that downgrade of the ratings (i.e. if rating at initial recognition was 3 and current rating is 4c) would lead to identification of a significant increase in credit risk. These rules are primarily applied for leasing and factoring business receivables. There are no additional cure periods established for quantitative criteria for migration back to Stage 1 other than those already established in general credit risk practice. (e.g. for rating improvement).

46. Risk management *(continued)*
46.5. Credit risk *(continued)*

Qualitative criteria

Some of the main qualitative SICR criteria used include:

- forbearance-type flags (identification of regulatory forbearance),
- work-out transfer flag (when account starts being monitored by work-out department),
- information from early-warning-system (if it is not sufficiently considered in rating) and
- fraud indicators.

The assignment of some of the qualitative indicators inherently relies on experienced credit risk judgment being exercised adequately and timely. The related group-wide and entity-level credit risk controlling policies and procedures (adapted as necessary in the light of transition to IFRS 9) ensure the necessary governance framework. These indicators are used internally for identification of insolvency or increased probability that a borrower will enter bankruptcy and there is increased risk of default in the foreseeable future. Besides the qualitative indicators defined on client level, the assessment of significant increase in credit risk is performed on portfolio level if the increase in credit risk on individual instrument or client level is only available with a certain time lag or is observable exclusively on portfolio level. There are no additional cure periods established for qualitative criteria for migration back to Stage 1 other than those already established in general credit risk practice for the used above-mentioned flags (forbearance, watch lists).

Backstop

A backstop is applied and the financial instruments are considered to have experienced a SICR if the borrower is more than 30 days past due on contractual payments.

BCR assigns Stage 2 to “Datio in solutum” eligible performing portfolio of the Bank considered to be with increased risk of notification and expected credit losses using lifetime risk parameters are booked. Stage 3 is assigned to 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 1119 accounts (out of which 113 represent active accounts at 31st December 2017 and 400 at 31st December 2016). In 2017 the total number of notifications received were related to 122 accounts (out of which 93 active accounts at December 31st, 2018).

Low credit risk exemption

The ‘low credit risk exemption’ allowed by IFRS 9 for ‘investment grade’ assets or other assets deemed ‘low risk’ (and resulting in 12 months expected credit losses being calculated irrespective of SICR quantitative measures) has been implemented with limitations in BCR Group. Thus, the potential activation of this exemption is limited to particular types of debt instruments and counterparty categories, and only if supported by sufficient ‘low risk’ evidence. On this basis, the ‘low risk exemption’ is expected to be occasionally applied only to banks and sovereigns. As of 31 December 2018 the Group did not register any low credit risk exposures.

Purchased or Originated Credit Impaired (POCI) exposures

POCI includes financial instruments which were credit-impaired at initial recognition, irrespective of whether they are still credit-impaired at the reporting date. Expected credit losses against POCI exposures are always calculated on a lifetime basis and are reflected in the credit-adjusted effective interest rate at initial recognition. As a result, no loss allowance is recognised at inception. Subsequently, only adverse changes in lifetime expected credit losses after the initial recognition are recognised as loss allowance, whilst favourable changes are recognised as impairment gains increasing the gross carrying amount of the POCI financial assets.

Credit-impaired assets

Stage 3 includes financial instruments which are credit-impaired at the reporting date but were not credit-impaired at initial recognition. In principle, a financial instrument becomes credit-impaired when the customer defaults. The default definition applied in the Group has been developed in accordance with EBA/GL/2016/07 ‘Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013. The Group generally applies a customer view in applying the default definition, which leads to an impairment of all claims even if the customer defaults only on one of several transactions (‘pulling effect’). On the other side, an upgrade to a non-defaulted rating grade implies that the total exposure ceases to be impaired.

46. Risk management *(continued)*
46.5. Credit risk *(continued)*

Measurement of ECL

The measurement of ECLs is a probability-weighted average estimate of credit losses that reflect the time value of money. A credit loss is the difference between the cash flows that are due to the Group in accordance with the contractual terms of the instrument and the cash flows that the Group expects to receive (i.e. cash shortfalls) discounted at the original effective interest rate (EIR) of the same instrument, or the credit-adjusted EIR in case of purchased or originated credit impaired assets (POCI). For the purposes of measuring ECL, the Group estimates expected cash shortfalls, which reflect the cash flows expected from all possible sources including collateral and other credit enhancements that are part of the contractual terms. In the case of a collateralized financial instrument, the estimated expected cash flows related to the collateral reflects the amount and timing of cash flows that are expected from foreclosure on the collateral less the discounted costs of obtaining and selling the collateral. ECL is calculated over the residual period over which the Bank is exposed to credit risk. The residual period is defined based on the substantive terms of the instrument, including the Group's ability to demand repayment or cancellation and the customer's ability to require extension. However, for revolving credit facilities (i.e. those that include both a loan and an undrawn commitment component) the period of exposure is determined in accordance with the Group's expected credit risk management actions to mitigate credit risk, including terminating or limiting credit exposure. In doing so, the Group considers its normal credit risk mitigation process, its past practice, future intentions and expected credit risk mitigation actions.

For exposures to non-defaulted customers (i.e. in Stage 1 and Stage 2) the Bank determines ECL on a collective basis irrespective of the significance of the customer. The calculation of ECL for non-defaulted customers requires grouping the related exposures into homogenous groups on the basis of shared credit risk characteristics. The grouping criteria may differ on the customer segment (retail, corporate) and include product type, collateral type, repayment type, loan to value band or credit rating band. The calculation of credit loss allowances is done on a monthly basis on a single exposure level and in the contractual currency of the exposure. ECL is determined as the product of exposure at default (EAD) that also includes a credit conversion factor in case of off balance sheet exposures, probability of default (PD) and loss given default (LGD), discounted with the original EIR, as follows:

- PD represents the likelihood of a borrower defaulting on its financial obligation (as per definition of default below), either over the next 12 month (1Y PD) or over the remaining lifetime (LT PD)
- EAD is based on the amounts the Group expects to be owed at the time of default, over next 12 months (1Y EAD) or over remaining lifetime (LT EAD). The estimation includes current balance, expected repayments and expected drawings up to the current contractual limit by the time of default, should it occur.
- LGD represents the Group's expectation of the extent of loss on defaulted exposures. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit exposure at the time of default (EAD).

Lifetime parameters

The LT PD is developed through observation of historical defaults from initial recognition through the lifetime of the loans. It is assumed to be the same across all assets in the same portfolio and rating band. The 1Y and LT EADs are determined based on the expected payment profiles, which vary by different product types. The LT EAD calculation utilizes repayment schedule or repayment type (annuity, linear, bullet). In the case of undrawn commitments, a credit conversion factor is estimated for reflecting the expected credit exposure in the EAD. The LGD is estimated as a life-time curve for any point in time, based on the historical loss observations.

The risk parameters used in the ECL calculation take into account available information at the reporting date about past events, current conditions and forecasts on future economic trends. Generally, the risk parameters applied in the calculation of IFRS 9 ECL differ from the risk parameters compliant with capital requirement regulations, calculated on a through-the-cycle basis.

Incorporation of Forward Looking Information (FLI)

Parameters are determined to reflect the risk as a 'point-in-time' measure and with consideration of forward-looking information ('FLI'), which resulted in introducing a baseline forecast and a number of alternative scenarios for selected macroeconomic variables. The Group defines 3 macroeconomic scenarios (base, optimistic and adverse) which are allocated specific weights that reflect their outcome probability. The base scenario represents the most likely scenario and is aligned with the information used by the Group for strategic planning and budgeting purposes. Weights assigned to each macroeconomic scenario are used to determine the final ECL as a weighted average of individual ECL estimated for each scenario.

46. Risk management *(continued)*
46.5. Credit risk *(continued)*

Given multiple scenarios, the main risk parameters (PD and LGD) are adjusted through macro models which link relevant macroeconomic variables with portfolio level risk drivers. The same macro-shift models as for credit risk stress testing are employed. For some portfolios and/or some risk parameters the Forward looking information is incorporated for first three years of ECL measurement. Measurement of the parameters for the remaining lifetime returns back to through-the-cycle observations immediately in the year four. Thus, the unbiased, probability-weighted ECL is derived with the weights representing the occurrence probabilities of each macroeconomic scenario.

Typical macroeconomic variables include real gross domestic product, unemployment rate, inflation rate, FX rate, production index as well as market interest rates. The selection of variables also depends on the availability of reliable forecasts for the given local market. Nevertheless, main indication of the estimated economic development can be predicted through the GDP development.

ECL for Stage 3 or POCI

ECL on Stage 3 or POCI exposures are calculated individually or collectively. The individual approach is applied in case of exposures to significant defaulted customers and consists of the individual assessment of the difference between the gross carrying amount and the net present value of the expected cash flows which are estimated by workout or risk managers. The discounting of the cash flows is based on the effective interest rate (POCI: credit-adjusted effective interest rate). However, for financial guarantees the discount rate shall reflect the current market assessment of the time value of money and the risks that are specific to the cash flows which in BCR Group's implementation means using a risk free rate as a proxy. A defaulted customer is classified as individually significant if the total on- and off-balance exposure exceeds a predefined materiality limit. Otherwise, the customer is considered as insignificant and a rule-based approach is used for the calculation of the related credit loss allowance. Under this approach, credit loss allowances are calculated as the product of gross carrying amount and LGD, where the LGD depends on characteristics such as time in default or the stage of the workout process.

Composition of credit loss allowances

		Group		Bank
in RON thousands	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**
Specific allowances		(2,089,902)		(1,953,888)
Collective allowances		(647,482)		(619,688)
Provisions for guarantees		(351,257)		(351,158)
Credit loss allowances	(2,241,894)		(2,114,925)	
Loss allowances for loan commitments and financial guarantees	(417,101)		(418,827)	
Provisions for other commirments	(3)		(3)	
Total	**(2,658,999)**	**(3,088,640)**	**(2,533,755)**	**(2,924,734)**

Credit loss allowances and loss allowances for loan commitments and financial guarantees are computed based on IFRS 9 requirements, while provisions for other commitments are subject to IAS 37.

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 re-pricing 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:

- 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;

46. Risk management *(continued)*
46.5. Credit risk *(continued)*

- 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);
- 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;

46. Risk management *(continued)*
46.5. Credit risk *(continued)*

- 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 man-aged and monitored according to the internal regulations and standards for the workout involvement. Forbearance measures are defined as qualitative trigger events in the SICR concept according to internal regulations of BCR.

Credit risk exposure, forbearance exposure and credit loss allowances

Group

in RON thousands	Loans and advances	Debt securities	Other on- and off-balance-sheet positions	Loan commitments	Total
			31.12.2018		
Gross exposure	**38,749,172**	**21,016,020**	**4,016,448**	**8,706,999**	**72,488,640**
thereof gross forborne exposure	1,376,389	-	-	15,356	1,391,744
Performing exposure	**36,531,580**	**20,990,781**	**3,548,360**	**8,607,760**	**69,678,480**
thereof performing forborne exposure	333,926	-	-	4,957	338,882
Credit loss allowances for performing exposure	**(624,540)**	**(14,400)**	**(46,116)**	**(36,741)**	**(721,798)**
thereof credit loss allowances for performing forborne exposure	(46,265)	-	-	(180)	(46,445)
Non-performing exposure	**2,217,593**	**25,239**	**468,089**	**99,239**	**2,810,160**
thereof non-performing forborne exposure	1,042,463	-	-	10,399	1,052,862
Credit loss allowances for non-performing exposure	**(1,601,351)**	**(1,603)**	**(287,241)**	**(47,006)**	**(1,937,201)**
thereof credit loss allowances for non-performing forborne exposure	(631,630)	-	-	(6,318)	(637,948)

Group

in RON thousands	Loans and advances	Debt securities	Other on- and off-balance-sheet positions	Loan commitments	Total
			31.12.2017		
Gross exposure	**38,439,767**	**21,196,410**	**721,373**	**7,785,596**	**68,143,146**
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 loss allowances for performing exposure	**(643,870)**	**(3,612)**	**-**	**(86,834)**	**(734,316)**
thereof credit loss allowances 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 loss allowances for non-performing exposure	**(2,089,902)**	**-**	**-**	**(264,423)**	**(2,354,324)**
thereof credit loss allowances for non-performing forborne exposure	(973,268)	-	-	(174)	(973,441)

Bank

in RON thousands	Loans and advances	Debt securities	Other on- and off-balance-sheet positions	Loan commitments	Total
			31.12.2018		
Gross exposure	**37,087,556**	**19,396,433**	**3,987,066**	**8,992,310**	**69,463,364**
thereof gross forborne exposure	1,341,057	-	-	15,356	1,356,413
Performing exposure	**34,999,338**	**19,394,058**	**3,516,205**	**8,893,071**	**66,802,672**
thereof performing forborne exposure	327,373	-	-	4,957	332,330
Credit loss allowances for performing exposure	**(603,945)**	**(9,537)**	**(46,105)**	**(38,478)**	**(698,065)**
thereof credit loss allowances for performing forborne exposure	(45,885)	-	-	(180)	(46,065)
Non-performing exposure	**2,088,218**	**2,374**	**470,860**	**99,239**	**2,660,692**
thereof non-performing forborne exposure	1,013,684	-	-	10,399	1,024,083
Credit loss allowances for non-performing exposure	**(1,499,850)**	**(1,593)**	**(287,241)**	**(47,006)**	**(1,835,690)**
thereof credit loss allowances for non-performing forborne exposure	(615,239)	-	-	(6,318)	(621,557)

46. Risk management *(continued)*
46.5. Credit risk *(continued)*

in RON thousands	Loans and advances	Debt securities	Other on- and off-balance-sheet positions	Loan commitments	Total
					Bank
			31.12.2017		
Gross exposure	**37,010,306**	**19,362,519**	**696,938**	**7,776,646**	**64,846,409**
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 loss allowances for performing exposure	**(616,076)**	**(3,612)**	**-**	**(86,736)**	**(706,424)**
thereof credit loss allowances 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 loss allowances for non-performing exposure	**(1,953,888)**	**-**	**-**	**(264,423)**	**(2,218,311)**
thereof credit loss allowances for non-performing forborne exposure	(955,255)	-	-	(174)	(955,429)

Types of forbearance exposure

in RON thousands	Gross forborne exposure	Modification in terms and conditions	Refinancing	Gross forborne exposure	Modification in terms and conditions	Refinancing
						Group
	31.12.2018			31.12.2017		
Loans and advances	1,376,389	1,369,176	7,212	2,917,784	2,914,814	2,971
Debt securities	-	-	-	-	-	-
Loan commitments	15,356	12,698	2,658	30,186	30,179	8
Total	1,391,744	1,381,874	9,871	2,947,971	2,944,992	2,978

in RON thousands	Gross forborne exposure	Modification in terms and conditions	Refinancing	Gross forborne exposure	Modification in terms and conditions	Refinancing
						Bank
	31.12.2018			31.12.2017		
Loans and advances	1,341,057	1,333,876	7,181	2,869,198	2,866,286	2,912
Debt securities	-	-	-	-	-	-
Loan commitments	15,356	12,698	2,658	30,186	30,179	8
Total	1,356,413	1,346,574	9,839	2,899,384	2,896,464	2,920

Loans and advances figures incudes lease, trade and other receivables.

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.

46. Risk management *(continued)*

46.5. Credit risk *(continued)*

The following tables compare the credit risk exposure and allocated collateral broken down by business segments.

Group

in RON thousands	Total credit risk exposure	Collateral total	Collateralised by			Credit risk exposure net of collateral
			Guarantees	Real estate	Other	
			31.12.2018			
Retail	**25,815,953**	14,370,167	4,242,714	10,013,702	113,751	11,445,786
Retail	25,815,953	14,370,167	4,242,714	10,013,702	113,751	11,445,786
Corporates	**25,691,505**	8,467,720	1,965,068	2,625,342	3,877,311	17,223,785
Small and Medium Enterprises	8,207,643	3,843,022	635,530	1,158,574	2,048,918	4,364,621
Group Large Corporates	5,830,169	934,865	729,822	166,589	38,453	4,895,303
Local Large Corporates	3,836,938	1,106,332	262,316	225,760	618,256	2,730,606
Public Sector	5,603,347	1,526,125	337,399	21,706	1,167,020	4,077,222
Commercial Real Estate	2,213,410	1,057,376	-	1,052,712	4,664	1,156,034
Group Markets	**1,204,891**	684,690	601,633	-	83,057	520,201
Group Markets - Trading	217,118	-	-	-	-	217,118
Group Markets - Financial Institutions	987,773	684,690	601,633	-	83,057	303,083
Asset/Liability Management and Local Corporate Center	**19,776,291**	55,998	-	-	55,998	19,720,293
Asset/Liability Management	19,553,941	50,000	-	-	50,000	19,503,941
Corporate Center	222,349	5,998	-	-	5,998	216,351
Total	**72,488,640**	**23,578,575**	**6,809,415**	**12,639,044**	**4,130,116**	**48,910,065**

Group

in RON thousands	Total credit risk exposure	Collateral total	Collateralised by			Credit risk exposure net of collateral
			Guarantees	Real estate	Other	
			31.12.2017			
Retail	**23,141,509**	**12,459,187**	**3,814,788**	**8,422,632**	**221,768**	**10,682,322**
Retail	23,141,509	12,459,187	3,814,788	8,422,632	221,768	10,682,322
Corporates	**21,846,872**	**6,166,792**	**1,135,206**	**2,595,050**	**2,436,536**	**15,680,080**
Small and Medium Enterprises	6,192,083	2,850,323	178,699	1,073,170	1,598,455	3,341,760
Group Large Corporates	4,665,442	626,240	460,457	120,341	45,442	4,039,202
Local Large Corporates	3,795,050	1,060,762	133,921	383,531	543,309	2,734,289
Public Sector	5,761,207	619,581	362,129	20,255	237,197	5,141,625
Commercial Real Estate	1,433,090	1,009,886	-	997,753	12,133	423,204
Group Markets	**2,505,672**	**2,181,675**	**352,736**	**-**	**1,828,939**	**323,998**
Group Markets - Trading	1,952,962	1,826,260	-	-	1,826,260	126,702
Group Markets - Financial Institutions	552,710	355,415	352,736	-	2,679	197,295
Asset/Liability Management and Local Corporate Center	**20,649,093**	**504,536**	**-**	**-**	**504,536**	**20,144,556**
Asset/Liability Management	19,795,986	68,579	-	-	68,579	19,727,407
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**

Bank

in RON thousands	Total credit risk exposure	Collateral total	Collateralised by			Credit risk exposure net of collateral
			Guarantees	Real estate	Other	
			31.12.2018			
Retail	**23,994,316**	14,243,612	4,242,714	9,906,039	94,859	9,750,704
Retail	23,994,316	14,243,612	4,242,714	9,906,039	94,859	9,750,704
Corporates	**23,550,652**	6,615,437	1,910,107	2,535,079	2,170,251	16,935,214
Small and Medium Enterprises	6,058,095	1,990,739	580,569	1,068,312	341,858	4,067,356
Group Large Corporates	5,830,169	934,865	729,822	166,589	38,453	4,895,303
Local Large Corporates	3,845,631	1,106,332	262,316	225,760	618,256	2,739,299
Public Sector	5,603,347	1,526,125	337,399	21,706	1,167,020	4,077,222
Commercial Real Estate	2,213,410	1,057,376	-	1,052,712	4,664	1,156,034
Group Markets	**1,207,779**	686,682	601,633	-	85,048	521,098
Group Markets - Trading	217,245	-	-	-	-	217,245
Group Markets - Financial Institutions	990,535	686,682	601,633	-	85,048	303,853
Asset/Liability Management and Local Corporate Center	**20,710,617**	325,009	-	-	325,009	20,385,608
Asset/Liability Management	20,469,933	319,011	-	-	319,011	20,150,922
Corporate Center	240,685	5,998	-	-	5,998	234,687
Total	**69,463,364**	**21,870,740**	**6,754,454**	**12,441,119**	**2,675,167**	**47,592,624**

Bank

in RON thousands	Total credit risk exposure	Collateral total	Collateralised by			Credit risk exposure net of collateral
			Guarantees	Real estate	Other	
			31.12.2017			
Retail	**21,108,720**	**12,382,086**	**3,814,788**	**8,378,255**	**189,043**	**8,726,634**
Retail	21,108,720	12,382,086	3,814,788	8,378,255	189,043	8,726,634
Corporates	**20,070,745**	**4,653,641**	**1,083,296**	**2,502,781**	**1,067,564**	**15,417,104**
Small and Medium Enterprises	4,395,853	1,337,172	126,789	980,901	229,482	3,058,681
Group Large Corporates	4,665,442	626,240	460,457	120,341	45,442	4,039,202
Local Large Corporates	3,815,154	1,060,762	133,921	383,531	543,309	2,754,392
Public Sector	5,761,207	619,581	362,129	20,255	237,197	5,141,625
Commercial Real Estate	1,433,090	1,009,886	-	997,753	12,133	423,204
Group Markets	**2,511,358**	**2,186,971**	**352,736**	**-**	**1,834,235**	**324,387**
Group Markets - Trading	1,952,962	1,826,260	-	-	1,826,260	126,702
Group Markets - Financial Institutions	558,395	360,711	352,736	-	7,975	197,685
Asset/Liability Management and Local Corporate Center	**21,155,586**	**686,863**	**-**	**-**	**686,863**	**20,468,723**
Asset/Liability Management	20,289,418	250,906	-	-	250,906	20,038,512
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**

46. Risk management *(continued)*
46.5. Credit risk *(continued)*

Credit risk exposure by financial instrument and collateral

Group

in RON thousands	Total credit risk exposure	Collateral total	Collateralised by Guarantees	Collateralised by Real estate	Collateralised by Other	Credit risk exposure net of collateral
			31.12.2018			
Cash and cash balances - demand deposits to central banks and credit institutions	202,567	-	-	-	-	202,567
Debt instruments held for trading	213,965	-	-	-	-	213,965
Non-trading debt instruments at FVPL	5,920	59	-	59	-	5,860
Debt instruments at FVOCI	5,124,698	-	-	-	-	5,124,698
Debt instruments at AC	52,926,795	19,821,305	5,807,219	12,329,573	1,684,513	33,105,490
Debt securities	15,891,323	-	-	-	-	15,891,323
Loans and advances to banks	124,122	50,004	-	-	50,004	74,118
Loans and advances to customers	36,911,350	19,771,301	5,807,219	12,329,573	1,634,509	17,140,049
Trade and other receivables	694,943	72,014	22,720	1,413	47,881	622,929
Finance lease receivables	1,012,837	991,702	-	12,059	979,643	21,135
Debt instruments held for sale in disposal groups	-	-	-	-	-	-
Positive fair value of hedge accounting derivatives	-	-	-	-	-	-
Off balance-sheet exposures	12,306,915	2,693,495	979,475	295,940	1,418,080	9,613,420
Total	**72,488,640**	**23,578,575**	**6,809,415**	**12,639,044**	**4,130,116**	**48,910,065**

Group

in RON thousands	Total credit risk exposure	Collateral total	Collateralised by Guarantees	Collateralised by Real estate	Collateralised by Other	Credit risk exposure net of collateral	Neither past due nor impaired	Past due but not impaired	Impaired
					31.12.2017				
Cash and cash balances - other demand deposits	679,924	325,055	-	-	325,055	354,868	679,924	-	-
Loans and receivables to credit institutions	2,221,260	1,936,436	-	-	1,936,436	284,824	2,221,260	-	-
Loans and receivables 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
Financial assets - held to maturity	14,760,506	-	-	-	-	14,760,506	14,760,506	-	-
Financial assets - held for trading	63,245	-	-	-	-	63,245	63,245	-	-
Financial assets - at fair value through profit or loss	15,131	-	-	-	-	15,131	15,131	-	-
Financial assets - available for sale	6,357,528	-	-	-	-	6,357,528	6,335,252	-	22,276
Positive fair value of derivatives	41,449	-	-	-	-	41,449	41,449	-	-
Contingent 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**

Bank

in RON thousands	Total credit risk exposure	Collateral total	Collateralised by Guarantees	Collateralised by Real estate	Collateralised by Other	Credit risk exposure net of collateral
			31.12.2018			
Cash and cash balances - demand deposits to central banks and credit institutions	146,789	-	-	-	-	146,789
Debt instruments held for trading	214,092	-	-	-	-	214,092
Non-trading debt instruments at FVPL	5,920	59	-	59	-	5,860
Debt instruments at FVOCI	5,089,620	-	-	-	-	5,089,620
Debt instruments at AC	50,725,301	19,051,113	5,762,132	12,143,884	1,145,097	31,674,188
Debt securities	14,306,812	-	-	-	-	14,306,812
Loans and advances to banks	391,811	50,004	-	-	50,004	341,807
Loans and advances to customers	36,026,677	19,001,109	5,762,132	12,143,884	1,095,093	17,025,568
Trade and other receivables	663,148	66,418	17,124	1,413	47,881	596,730
Finance lease receivables	-	-	-	-	-	-
Debt instruments held for sale in disposal groups	-	-	-	-	-	-
Positive fair value of hedge accounting derivatives	-	-	-	-	-	-
Off balance-sheet exposures	12,618,495	2,753,150	975,198	295,762	1,482,189	9,865,345
Total	**69,463,364**	**21,870,740**	**6,754,454**	**12,441,119**	**2,675,167**	**47,592,624**

Bank

in RON thousands	Total credit risk exposure	Collateral total	Collateralised by Guarantees	Collateralised by Real estate	Collateralised by Other	Credit risk exposure net of collateral	Neither past due nor impaired	Past due but not impaired	Impaired
					31.12.2017				
Cash and cash balances - other demand deposits	655,489	325,055	-	-	325,055	330,434	655,489	-	-
Loans and receivables to credit institutions	2,426,183	1,936,436	-	-	1,936,436	489,748	2,426,183	-	-
Loans and receivables 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
Financial assets - held to maturity	13,379,340	-	-	-	-	13,379,340	13,379,340	-	-
Financial assets - held for trading	63,245	-	-	-	-	63,245	63,245	-	-
Financial assets - at fair value through profit or loss	15,131	-	-	-	-	15,131	15,131	-	-
Financial assets - available for sale	5,904,802	-	-	-	-	5,904,802	5,902,664	-	2,138
Positive fair value of derivatives	41,449	-	-	-	-	41,449	41,449	-	-
Contingent 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**

46. Risk management *(continued)*

46.5. Credit risk *(continued)*

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, Tresury)	68,878,702	144,450,700	173,919,234	-	-	-

In RON thousand, as of 31 Dec 2017						Bank
	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	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, Tresury)	68,878,702	144,450,700	173,919,234	-	-	-

Credit risk exposure past due and not covered by credit loss allowances by financial instrument and collateralization

												Group
in RON thousands	Total credit risk exposure						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
	31.12.2017											
Cash and cash balances – other demand deposits	-	-	-	-	-	-	-	-	-	-	-	-
Loans and receivables to credit institutions	-	-	-	-	-	-	-	-	-	-	-	-
Loans and receivables 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
Financial assets - held to maturity	-	-	-	-	-	-	-	-	-	-	-	-
Financial assets - held for trading	-	-	-	-	-	-	-	-	-	-	-	-
Financial assets - at fair value through profit or loss	-	-	-	-	-	-	-	-	-	-	-	-
Financial assets - available for sale	-	-	-	-	-	-	-	-	-	-	-	-
Loans and advances to customers	-	-	-	-	-	-	-	-	-	-	-	-
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**

												Bank
in RON thousands	Total credit risk exposure						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
	31.12.2017											
Cash and cash balances – other demand deposits	-	-	-	-	-	-	-	-	-	-	-	-
Loans and receivables to credit institutions	-	-	-	-	-	-	-	-	-	-	-	-
Loans and receivables 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
Financial assets - held to maturity	-	-	-	-	-	-	-	-	-	-	-	-
Financial assets - held for trading	-	-	-	-	-	-	-	-	-	-	-	-
Financial assets - at fair value through profit or loss	-	-	-	-	-	-	-	-	-	-	-	-
Financial assets - available for sale	-	-	-	-	-	-	-	-	-	-	-	-
Loans and advances to customers	-	-	-	-	-	-	-	-	-	-	-	-
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**

There are no overdue amounts registered on other demand deposits.

46. Risk management *(continued)*
46.5. Credit risk *(continued)*

Loans and advances to customers

The tables on the following pages present the structure of the customer loan book, excluding loans to central banks and credit institutions broken-down by different categories. Loans and advances to customers comprise

- loans to customers at FVPL;
- loans and advances to customers at AC;
- finance lease receivables;
- trade and other receivables.

On the next pages loans and advances to customers are presented by:

- business segment and risk category;
- business segment and IFRS 9 treatment;
- business segment and coverage of non-performing loans to customers by loan loss allowances;
- business segment and coverage by loan loss allowances and IFRS 9 treatment;
- business segment and currency;

Loans and advances to customers by business segment and risk category

Group

in RON thousands	Low risk	Management attention	Substandard	Non-performing	Total
			31.12.2018		
Retail	19,444,804	1,470,162	812,285	1,139,736	22,866,987
Corporates	9,816,182	3,545,634	1,027,312	1,067,157	15,456,284
Group Markets	20,054	-	24	-	20,078
Asset/Liability Management and Local Corporate Center	34,425	155,540	8,516	10,692	209,172
Total	**29,315,465**	**5,171,335**	**1,848,137**	**2,217,585**	**38,552,522**

Group

in RON thousands	Low risk	Management attention	Substandard	Non-performing	Total
			31.12.2017		
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 and Local Corporate Center	127,263	130,566	0	6,286	264,115
Total	**25,473,869**	**7,261,071**	**541,272**	**2,942,296**	**36,218,507**

Bank

in RON thousands	Low risk	Management attention	Substandard	Non-performing	Total
			31.12.2018		
Retail	19,232,893	1,465,912	811,635	1,073,768	22,584,209
Corporates	8,295,199	3,172,010	1,009,838	1,003,751	13,480,799
Group Markets	20,054	-	24	-	20,078
Asset/Liability Management and Local Corporate Center	363,216	155,540	8,516	10,692	537,963
Total	**27,911,363**	**4,793,462**	**1,830,013**	**2,088,211**	**36,623,049**

Bank

in RON thousands	Low risk	Management attention	Substandard	Non-performing	Total
			31.12.2017		
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 and Local Corporate Center	390,152	142,817	0	6,286	539,255
Total	**24,658,718**	**6,654,605**	**512,847**	**2,757,953**	**34,584,122**

46. Risk management *(continued)*
46.5. Credit risk *(continued)*

Loans and advances to customers by business segment and IFRS 9 treatment

Group

in RON thousands	Stage 1	Stage 2	Stage 3	POCI	Gross customer loans (AC)	Not subject to IFRS 9 impairment	Total
				31.12.2018			
Retail	20,321,936	1,312,939	943,604	288,508	22,866,987	-	22,866,987
Corporates	11,695,554	2,665,739	781,081	307,991	15,450,365	5,920	15,456,284
Group Markets	20,055	23	-	-	20,078	-	20,078
Asset/Liability Management and Local Corporate Center	198,164	327	10,671	10	209,172	-	209,172
Total	**32,235,709**	**3,979,028**	**1,735,355**	**596,510**	**38,546,602**	**5,920**	**38,552,522**

Bank

in RON thousands	Stage 1	Stage 2	Stage 3	POCI	Gross customer loans (AC)	Not subject to IFRS 9 impairment	Total
				31.12.2018			
Retail	20,107,835	1,310,230	877,667	288,477	22,584,209	-	22,584,209
Corporates	9,913,973	2,535,240	717,675	307,991	13,474,879	5,920	13,480,799
Group Markets	20,055	23	-	-	20,078	-	20,078
Asset/Liability Management and Local Corporate Center	526,955	327	10,671	10	537,963	-	537,963
Total	**30,568,818**	**3,845,820**	**1,606,012**	**596,478**	**36,617,129**	**5,920**	**36,623,049**

In the following tables, the non-performing loans and advances to customers divided by reporting segment are contrasted with allowances for customer loans and the collateral for non-performing loans (NPL). The NPL ratio, the NPL coverage ratio (excl. collateral), and the NPL collateralization ratio are also included.

Non-performing loans and advances to customers by business segment and coverage by loan loss allowances

Group

in RON thousands	Non-performing		Gross customer loans		Loan loss allowances	Collateral for NPL		NPL ratio		NPL coverage (exc collateral)	NPL collateralisation ratio	
	Total	AC	Total	AC	AC	Total	AC	Total	AC	AC	Total	AC
						31.12.2018						
Retail	1,139,736	1,136,185	22,866,987	22,866,987	(1,171,862)	348,006	348,006	5.0%	5.0%	103.1%	30.5%	30.6%
Corporates	1,067,157	1,040,435	15,456,284	15,450,365	(1,043,723)	395,803	395,744	6.9%	6.7%	100.3%	37.1%	38.0%
Group Markets	-	-	20,078	20,078	(28)	-	-	0.0%	0.0%	0.0%	0.0%	0.0%
Asset/Liability Management and Local Corporate Center	10,692	10,692	209,172	209,172	(9,309)	-	-	5.1%	5.1%	87.1%	0.0%	0.0%
Total	**2,217,585**	**2,187,312**	**38,552,522**	**38,546,602**	**(2,224,922)**	**743,809**	**743,750**	**5.8%**	**5.7%**	**101.7%**	**33.5%**	**34.0%**

Group

in RON thousands	Non-performing	Gross customer loans	Loan loss allowances	Specific allowances	Collective allowances	NPL ratio	NPL coverage (exc collateral)	Collateral for NPL	NPL collateralisation ratio
					31.12.2017				
Retail	1,325,117	20,284,817	(1,306,700)	(1,061,620)	(245,080)	6.5%	98.6%	430,891	131.1%
Corporates	1,610,893	15,654,173	(1,410,882)	(1,028,282)	(382,600)	10.3%	87.6%	602,156	125.0%
Group Markets	-	15,402	(52)	-	(52)	0.0%	0.0%	-	0.0%
Asset/Liability Management and Local Corporate Center	6,286	264,115	(9,990)	-	(9,990)	2.4%	158.9%	-	158.9%
Total	**2,942,296**	**36,218,507**	**(2,727,624)**	**(2,089,902)**	**(637,722)**	**8.1%**	**92.7%**	**1,033,047**	**127.8%**

Bank

in RON thousands	Non-performing		Gross customer loans		Loan loss allowances	Collateral for NPL		NPL ratio		NPL coverage (exc collateral)	NPL collateralisation ratio	
	Total	AC	Total	AC	AC	Total	AC	Total	AC	AC	Total	AC
						31.12.2018						
Retail	1,073,768	1,073,768	22,584,209	22,584,209	(1,106,394)	347,908	347,908	4.8%	4.8%	103.0%	32.4%	32.4%
Corporates	1,003,751	997,832	13,480,799	13,474,879	(984,380)	354,788	354,729	7.4%	7.4%	98.7%	35.3%	35.5%
Group Markets	-	-	20,078	20,078	(28)	-	-	0.0%	0.0%	0.0%	0.0%	0.0%
Asset/Liability Management and Local Corporate Center	10,692	10,692	537,963	537,963	(9,974)	-	-	2.0%	2.0%	93.3%	0.0%	0.0%
Total	**2,088,211**	**2,082,291**	**36,623,049**	**36,617,129**	**(2,100,775)**	**702,696**	**702,637**	**5.7%**	**5.7%**	**100.9%**	**33.7%**	**33.7%**

46. Risk management *(continued)*
46.5. Credit risk *(continued)*

Bank

in RON thousands	Non-performing	Gross customer loans	Loan loss allowances	Specific allowances	Collective allowances	NPL ratio	NPL coverage (exc collateral)	Collateral for NPL	NPL collateralisation ratio
					31.12.2017				
Retail	1,230,589	20,020,131	(1,212,041)	(968,791)	(243,250)	6.1%	98.5%	427,318	133.2%
Corporates	1,521,078	14,009,334	(1,341,734)	(985,097)	(356,637)	10.9%	88.2%	551,626	124.5%
Group Markets	-	15,402	(52)	-	(52)	0.0%	0.0%	-	0.0%
Asset/Liability Management and Local Corporate Center	6,286	539,255	(9,990)	-	(9,990)	1.2%	158.9%	-	158.9%
Total	**2,757,953**	**34,584,122**	**(2,563,817)**	**(1,953,888)**	**(609,929)**	**8.0%**	**93.0%**	**978,944**	**128.5%**

Total gross customer loans, total non-performing loans, and total collateral include both AC and FVPL portfolios.

The NPL ratio of loans and advances to customers is calculated by dividing the gross carrying amount of non-performing loans and advances to customers by the total gross carrying amount of loans and advances to customers. Consequently, it differs from the NPE ratio in section ''Credit risk exposure'. Collaterals for non-performing loans mainly consist of real estates.

The NPL coverage ratio (excluding collateral) is calculated according to Group's internal definition by dividing total loss allowances (calculated for both performing and non-performing loans and advances to customers) by the gross carrying amount of the non-performing loans and advances to customers. Collateral or other recoveries are not taken into account.

Loans and advances to customers at AC and coverage by loan loss allowances by business segment and IFRS 9 treatment

Group

in RON thousands	Loans to customers				Loan loss allowances				Stage 2 coverage ratio	Stage 3 coverage ratio	POCI coverage ratio
	Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI			
						31.12.2018					
Retail	20,321,936	1,312,939	943,604	288,508	(45,878)	(178,777)	(793,541)	(153,666)	13.6%	84.1%	53.3%
Corporates	11,695,554	2,665,739	781,081	307,991	(93,277)	(287,661)	(599,370)	(63,415)	10.8%	76.7%	20.6%
Group Markets	20,055	23	-	-	(27)	(1)	-	-	2.2%	0.0%	0.0%
Asset/Liability Management and Local Corporate Center	198,164	327	10,671	10	(56)	(15)	(9,238)	-	4.5%	86.6%	0.0%
Total	**32,235,709**	**3,979,028**	**1,735,355**	**596,510**	**(139,238)**	**(466,454)**	**(1,402,149)**	**(217,081)**	**11.7%**	**80.8%**	**36.4%**

Bank

in RON thousands	Loans to customers				Loan loss allowances				Stage 2 coverage ratio	Stage 3 coverage ratio	POCI coverage ratio
	Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI			
						31.12.2018					
Retail	20,107,835	1,310,230	877,667	288,477	(45,293)	(178,687)	(728,780)	(153,634)	13.6%	83.0%	53.3%
Corporates	9,913,973	2,535,240	717,675	307,991	(75,185)	(283,119)	(562,661)	(63,415)	11.2%	78.4%	20.6%
Group Markets	20,055	23	-	-	(27)	(1)	-	-	2.2%	0.0%	0.0%
Asset/Liability Management and Local Corporate Center	526,955	327	10,671	10	(721)	(15)	(9,238)	-	4.5%	86.6%	0.0%
Total	**30,568,818**	**3,845,820**	**1,606,012**	**596,478**	**(121,226)**	**(461,821)**	**(1,300,679)**	**(217,049)**	**12.0%**	**81.0%**	**36.4%**

Loans and advances to customers by business segment and currency

Group

in RON thousands	CEE-local currencies	EUR	CHF	USD	Other	Total
			31.12.2018			
Retail	15,283,778	7,564,938	61	18,101	109	22,866,987
Corporates	7,132,296	7,834,372	1	489,600	16	15,456,284
Group Markets	2,847	17,230	-	2	-	20,078
Asset/Liability Management and Local Corporate Center	198,250	10,840	-	82	-	209,172
Total	**22,617,171**	**15,427,379**	**62**	**507,784**	**125**	**38,552,522**

Group

in RON thousands	CEE-local currencies	EUR	CHF	USD	Other	Total
			31.12.2017			
Retail	11,768,801	8,493,876	91	21,804	246	20,284,817
Corporates	7,626,120	7,382,148	1	645,891	14	15,654,173
Group Markets	576	14,826	-	-	-	15,402
Asset/Liability Management and Local Corporate Center	252,471	11,624	-	19	-	264,115
Total	**19,647,968**	**15,902,473**	**92**	**667,714**	**260**	**36,218,507**

46. Risk management *(continued)*
46.5. Credit risk *(continued)*

Bank

in RON thousands	CEE-local currencies	EUR	CHF	USD	Other	Total
			31.12.2018			
Retail	15,059,415	7,506,527	61	18,096	109	22,584,209
Corporates	6,675,109	6,339,177	1	466,496	16	13,480,799
Group Markets	2,847	17,230	-	2	-	20,078
Asset/Liability Management and Local Corporate Center	527,042	10,840	-	82	-	537,963
Total	**22,264,412**	**13,873,774**	**62**	**484,675**	**125**	**36,623,049**

Bank

in RON thousands	CEE-local currencies	EUR	CHF	USD	Other	Total
			31.12.2017			
Retail	11,587,201	8,410,794	91	21,799	246	20,020,131
Corporates	7,200,369	6,176,740	1	632,210	14	14,009,334
Group Markets	576	14,826	-	-	-	15,402
Asset/Liability Management and Local Corporate Center	527,612	11,624	-	19	-	539,255
Total	**19,315,758**	**14,613,984**	**92**	**654,028**	**260**	**34,584,122**

46.6. 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.

46. Risk management *(continued)*

46.6. Market risk *(continued)*

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 (BP01,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.

For both Banking Book and Trading Book, the FX position in BCR is monitored and reported on a daily basis. An internal limit was established as a percentage from own funds.

The FX risk from trading book portfolio is also monitored through VaR FX indicator on a daily basis together with total VaR by the Market and Liquidity Risk unit.

Analysis of market risk

Value at Risk of trading book

The following tables show the VaR amounts as of 31 December 2018 and 31 December 2017 respectively at the 99.9% confidence level using equally weighted market data and with a holding period of one year:

In RON thousands

	FX position	Fixed Income	Money Market	Equity	**Total Trading Book**
As at 31 December 2018	166	5,749	1,056	-	**5,444**
As at 31 December 2017	-	1,851	188	-	**1,814**

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 2018 and 31 December 2017. 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.

46. Risk management *(continued)*
46.6. Market risk *(continued)*

31.12.2018

in RON thousands	RON			EUR		Other currencies	
Maturity band	Weighting factors	Net position	Weighted position	Net position	Weighted position	Net position	Weighted position
≤ 1 m	0.08%	(820,933)	(657)	2,353,006	1,882	(281,805)	(225)
> 1 m, ≤ 3 m	0.32%	1,453,539	4,651	1,924,771	6,159	(633,845)	(2,028)
> 3 m, ≤ 6 m	0.72%	(493,052)	(3,550)	(1,184,592)	(8,529)	(299,081)	(2,153)
> 6 m, ≤ 12 m	1.43%	(866,242)	(12,387)	(1,013,174)	(14,488)	(333,098)	(4,763)
> 1 y, ≤ 2 y	2.77%	1,638,737	45,393	1,963,167	54,380	(143,664)	(3,980)
> 2 y, ≤ 3 y	4.49%	2,667,071	119,752	568,211	25,513	(200,664)	(9,010)
> 3 y, ≤ 4 y	6.14%	1,283,948	78,834	(820,824)	(50,399)	(198,560)	(12,192)
> 4 y, ≤ 5 y	7.71%	(5,155,074)	(397,456)	(3,674,569)	(283,309)	(604,192)	(46,583)
> 5 y, ≤ 7 y	10.15%	2,918,809	296,259	1,729,051	175,499	(40,458)	(4,106)
> 7 y, ≤ 10 y	13.26%	1,469,656	194,876	368,141	48,816	(233)	(31)
> 10 y, ≤ 15 y	17.84%	2,306	411	201,261	35,905	40	7
> 15 y, ≤ 20 y	22.43%	105	23	36,169	8,113	-	-
> 20 y	26.03%	(3,047)	(793)	(47,862)	(12,459)	(5,426)	(1,412)
Total			**325,357**		**(12,918)**		**(86,477)**

31.12.2017

in RON thousands	RON			EUR		Other currencies	
Maturity band	Weighting factors	Net position	Weighted position	Net position	Weighted position	Net position	Weighted position
≤ 1 m	0.08%	1,607,730	1,286	1,637,929	1,310	(395,312)	(316)
> 1 m, ≤ 3 m	0.32%	(1,074,642)	(3,439)	1,384,459	4,430	(679,999)	(2,176)
> 3 m, ≤ 6 m	0.72%	(1,150,423)	(8,283)	(790,079)	(5,689)	(432,686)	(3,115)
> 6 m, ≤ 12 m	1.43%	(697,204)	(9,970)	(1,411,125)	(20,179)	(372,442)	(5,326)
> 1 y, ≤ 2 y	2.77%	(61,815)	(1,712)	66,219	1,834	(153,060)	(4,240)
> 2 y, ≤ 3 y	4.49%	1,165,294	52,322	2,643,209	118,680	(144,131)	(6,471)
> 3 y, ≤ 4 y	6.14%	1,938,839	119,045	750,974	46,110	(212,046)	(13,020)
> 4 y, ≤ 5 y	7.71%	(4,202,176)	(323,988)	(2,773,586)	(213,843)	(669,218)	(51,597)
> 5 y, ≤ 7 y	10.15%	2,306,694	234,129	1,086,933	110,324	(87,526)	(8,884)
> 7 y, ≤ 10 y	13.26%	3,140,003	416,364	711,350	94,325	(173)	(23)
> 10 y, ≤ 15 y	17.84%	2,991	534	367,042	65,480	(12)	(2)
> 15 y, ≤ 20 y	22.43%	126	28	38,155	8,558	52	12
> 20 y	26.03%	(1,454)	(379)	(51,762)	(13,474)	(5,201)	(1,354)
Total			**475,937**		**197,866**		**(96,512)**

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%.

46. Risk management *(continued)*

46.6. Market risk *(continued)*

Group

in RON thousands			31.12.2018
Own Funds			7,269,043
The Potential Decrease in the Market Value of Equity	in absolute value	RON	347,564
		EUR	10,248
		USD	85,841
		Total	443,653
	% of Own Funds		6.10%

Group

in RON thousands			31.12.2017
Own Funds			7,781,606
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		10.03%

Bank

in RON thousands			31.12.2018
Own Funds			7,284,094
The Potential Decrease in the Market Value of Equity	in absolute value	RON	325,357
		EUR	12,918
		USD	86,477
		Total	424,753
	% of Own Funds		5.83%

Bank

in RON thousands			31.12.2017
Own Funds			7,667,775
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		10.05%

The following table shows the changes in NII (Net Interest Income) for a 1 year period and the impact on fair value reserve (equity) due to an instantaneous parallel shift of the yield curves with ±1%, ±2%.

RON thousands		31.12.2018
Shift	Sensitivity of Net Interest Income	Sensitivity of AFS reserve (equity)
+ 2%	23,701	(188,647)
+ 1%	26,412	(96,009)
- 1%	(78,803)	99,561
- 2%	(205,230)	202,866

RON thousands		31.12.2017
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

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.

46. Risk management *(continued)*

46.7. 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 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.

46. Risk management *(continued)*
46.7. Liquidity risk *(continued)*

Analysis of liquidity risk

Financial assets

Maturities of contractual undiscounted cash flows from financial assets as of 31 December 2018 and 31 December 2017 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 2018, in thousands RON								
Non-derivative assets	**67,153,690**	**81,836,062**	**16,360,005**	**1,990,806**	**2,809,323**	**4,234,086**	**28,111,881**	**28,329,961**
Cash and cash balances	11,123,191	11,123,191	11,123,191	-	-	-	-	-
Debt securities	21,060,468	23,620,357	131,104	341,368	1,214,768	1,132,938	14,114,347	6,685,831
Loans and advances to banks	123,840	1,781,964	909,471	570,755	-	296,720	-	5,019
Loans and advances to customers	34,846,191	45,310,550	4,196,239	1,078,683	1,594,555	2,804,428	13,997,534	21,639,112
Derivatives	**31,062**	**3,318,401**	**2,198,552**	**818,929**	**99,850**	**26,858**	**172,513**	**1,698**

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 assets	**68,432,184**	**78,138,477**	**18,719,598**	**1,599,346**	**2,789,622**	**4,358,564**	**24,024,355**	**26,646,992**
Cash and cash balances	11,369,344	11,369,344	11,369,344	-	-	-	-	-
Debt securities	21,356,844	22,852,325	84,582	202,720	1,313,927	1,330,102	12,230,993	7,690,001
Loans and advances to banks	2,215,113	4,461,771	3,248,222	594,808	1,125	57,102	166,459	394,056
Loans and advances to customers	33,490,883	39,455,038	4,017,451	801,819	1,474,570	2,971,360	11,626,903	18,562,935
Derivatives	**41,449**	**5,749,784**	**2,541,320**	**339,766**	**228,220**	**471,497**	**1,953,772**	**215,210**

The financial assets as of 31 December 2018 and 31 December 2017 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 2018, in thousands RON								
Non-derivative assets	**64,747,638**	**78,270,036**	**15,439,828**	**1,397,718**	**2,407,441**	**4,153,289**	**26,679,335**	**28,192,426**
Cash and cash balances	10,862,852	10,862,852	10,862,852	-	-	-	-	-
Debt securities	19,444,203	21,930,420	94,183	291,789	834,276	1,120,185	12,904,157	6,685,831
Loans and advances to banks	388,848	649,139	300,226	47,174	-	296,720	-	5,019
Loans and advances to customers	34,051,735	44,827,626	4,182,567	1,058,754	1,573,165	2,736,384	13,775,179	21,501,577
Derivatives	**31,189**	**3,318,401**	**2,198,552**	**818,929**	**99,850**	**26,858**	**172,513**	**1,698**

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 assets	**65,208,449**	**74,992,919**	**18,147,000**	**993,147**	**2,675,597**	**4,279,229**	**22,336,452**	**26,561,494**
Cash and cash balances	11,245,387	11,245,387	11,245,387	-	-	-	-	-
Debt securities	19,522,721	21,158,294	65,044	162,534	1,241,677	1,305,601	10,693,437	7,690,001
Loans and advances to banks	2,420,035	3,491,007	2,829,440	42,826	1,125	57,102	166,459	394,056
Loans and advances to customers	32,020,306	39,098,231	4,007,128	787,787	1,432,796	2,916,525	11,476,556	18,477,438
Derivatives	**41,449**	**5,749,784**	**2,541,320**	**339,766**	**228,220**	**471,497**	**1,953,772**	**215,210**

46. Risk management *(continued)*

46.7. Liquidity risk *(continued)*

Financial liabilities

Maturities of contractual undiscounted cash flows from financial liabilities as of 31 December 2018 and 31 December 2017 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 2018, in thousands RON								
Non-derivative liabilities	**61,026,192**	**62,593,886**	**38,712,423**	**8,167,545**	**3,497,886**	**5,149,265**	**4,053,389**	**1,539,460**
Deposits by banks	4,536,098	5,643,902	**2,578,799**	**604,115**	**25,881**	**865,162**	**1,374,167**	**195,778**
Customer deposits	55,098,959	55,397,418	**37,607,542**	**7,480,508**	**3,461,688**	**4,165,860**	**2,506,089**	**175,732**
Debt securities in issue	349,153	334,238	-	**59,490**	**10,318**	**91,297**	**173,133**	-
Subordinated liabilities	1,041,982	1,218,329	-	**23,432**	-	**26,946**	-	-
Contingent liabilities	**9,236,986**	**9,236,986**	**9,236,986**	-	-	-	-	-
Financial guarantees	3,587,084	3,587,084	3,587,084	-	-	-	-	-
Irrevocable commitments	5,649,902	5,649,902	5,649,902	-	-	-	-	-
Derivatives	**32,988**	**3,316,387**	**2,200,667**	**818,106**	**89,677**	**23,436**	**182,801**	**1,700**

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	-	-	108,125	111,369	374,682	-
Subordinated liabilities	2,371,499	2,609,568	6,039	28,786	561,721	823,400	1,189,621	-
Contingent liabilities	**7,785,597**	**7,785,597**	**7,785,597**	-	-	-	-	-
Financial guarantees	3,014,797	3,014,797	3,014,797	-	-	-	-	-
Irrevocable commitments	4,770,800	4,770,800	4,770,800	-	-	-	-	-
Derivatives	**44,661**	**6,453,082**	**2,470,064**	**329,949**	**219,154**	**1,225,471**	**1,996,524**	**211,920**

Compared to 2017, the volume of deposits (customers and banks) for the Group as of 31 December 2018 increased from RON 57,950,753 thousands to RON 59,635,057 thousands.

Maturities of contractual undiscounted cash flows from financial liabilities as of 31 December 2018 and 31 December 2017 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 2018, in thousands RON								
Non-derivative liabilities	**57,734,047**	**58,123,700**	**37,628,283**	**7,992,188**	**3,329,612**	**4,348,013**	**3,286,205**	**1,539,399**
Deposits by banks	3,749,222	3,884,491	1,099,364	555,647	23,351	636,183	1,374,167	195,778
Customer deposits	52,593,690	52,686,643	36,528,918	7,353,619	3,295,943	3,593,587	1,738,905	175,670
Debt securities in issue	349,153	334,238	-	59,490	10,318	91,297	173,133	-
Subordinated liabilities	1,041,982	1,218,329	-	23,432	-	26,946	-	1,167,951
Contingent liabilities	**9,265,277**	**9,265,277**	**9,265,277**	-	-	-	-	-
Financial guarantees	3,613,353	3,613,353	3,613,353	-	-	-	-	-
Irrevocable commitments	5,651,924	5,651,924	5,651,924	-	-	-	-	-
Derivatives	**32,988**	**3,316,387**	**2,200,667**	**818,106**	**89,677**	**23,436**	**182,801**	**1,700**

46. Risk management *(continued)*

46.7. Liquidity risk *(continued)*

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	-	-	108,125	111,369	374,682	-
Subordinated liabilities	2,371,499	2,609,568	6,039	28,786	561,721	823,400	1,189,621	-
Contingent liabilities	**7,776,645**	**7,776,645**	**7,776,645**	-	-	-	-	-
Financial guarantees	3,045,642	3,045,642	3,045,642	-	-	-	-	-
Irrevocable commitments	4,731,003	4,731,003	4,731,003	-	-	-	-	-
Derivatives	**44,661**	**6,453,082**	**2,470,064**	**329,949**	**219,154**	**1,225,471**	**1,996,524**	**211,920**

Compared to 2017, the volume of deposits (customers and banks) for the Bank as of 31 December 2018 increased from RON 54,903,292 thousands to RON 56,342,912 thousands.

As of year-end 2018, the currency composition of the deposits consisted of approximately 64.62% RON (62.65% as of year-end 2017), 30.41% EUR (32.05% as of year-end 2017), 4.42% USD (4.56% as of year-end 2017) and the rest 0.55% in other currencies.

47. 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, being not significant amount both at 31 December 2017 and 31 December 2018.

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. This will be used as fair value and there is no need for a valuation model in this case.

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. Should the spread be not observable it has to be tested if the unobservable input parameter is significant. An unobservable input parameter for theoretical priced securities is considered significant if the effect of the unobservable input on the fair value of the respective security is higher than 2%.

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 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.

47. Fair value of financial assets and liabilities *(continued)*

47.1 Financial instruments measured at amortised cost in the statement of financial position whose fair value is disclosed in the notes

The following table shows fair values and fair value hierarchy of financial instruments whose fair value is disclosed in the notes for the year-end:

31.12.2018

in RON thousands	Group					Bank				
	Carrying amount	Fair value	Fair value hierarhy			Carrying amount	Fair value	Fair value hierarhy		
			Level 1	Level 2	Level 3			Level 1	Level 2	Level 3
Assets										
Cash and cash balances	11,123,191	11,123,191	11,123,191	-	-	10,862,852	10,862,852	10,862,852	-	-
Financial assets at amortised cost	50,843,219	52,621,067	15,315,789	217,006	37,088,272	48,732,568	50,539,773	13,816,377	158,127	36,565,269
Loans and advances to banks	123,840	125,628	-	-	125,628	388,848	391,703	-	-	391,703
Loans and advances to customers	34,840,271	36,861,031	-	-	36,861,031	34,045,815	36,072,575	-	-	36,072,575
Debt securities	15,879,108	15,634,408	15,315,789	217,006	101,613	14,297,905	14,075,495	13,816,377	158,127	100,991
Finance lease receivables	990,868	990,769	-	-	990,769	-	-	-	-	-
Trade and other receivables	563,014	563,014	-	-	563,014	543,179	543,179	-	-	543,179
Liabilities										
Financial liabilities measured at amortised cost	61,618,808	61,321,312	-	365,027	60,956,285	58,326,984	58,038,801	-	365,027	57,673,774
Deposits from banks	5,578,080	5,621,747	-	-	5,621,747	4,791,204	4,844,361	-	-	4,844,361
Deposits from customers	55,098,959	54,741,917	-	-	54,741,917	52,593,690	52,236,476	-	-	52,236,476
Debt securities in issue	349,153	365,027	-	365,027	-	349,153	365,027	-	365,027	-
Other financial liabilities	592,616	592,621	-	-	592,621	592,937	592,937	-	-	592,937

31.12.2017

in RON thousands	Group					Bank				
	Carrying amount	Fair value	Fair value hierarhy			Carrying amount	Fair value	Fair value hierarhy		
			Level 1	Level 2	Level 3			Level 1	Level 2	Level 3
Assets										
Cash and cash balances	11,369,344	11,369,344	11,369,344	-	-	11,245,387	11,245,387	11,245,387	-	-
Loans and advances	35,705,996	38,109,912	-	-	38,109,912	34,440,341	36,861,723	-	-	36,861,723
with credit institutions	2,215,113	2,218,332	-	-	2,218,332	2,420,035	2,422,458	-	-	2,422,458
with customers	33,490,883	35,891,580	-	-	35,891,580	32,020,306	34,439,265	-	-	34,439,265
Held-to-maturity investments	14,756,894	14,686,948	14,641,633	44,061	1,254	13,375,729	13,305,782	13,305,782	-	-
Liabilities										
Financial liabilities measured at amortised cost	62,007,067	61,950,656	-	579,096	61,371,560	58,920,983	58,875,208	-	579,096	58,296,112
Deposits	60,322,252	60,227,783	-	-	60,227,783	57,274,791	57,190,958	-	-	57,190,958
from banks	7,826,190	7,886,718	-	-	7,886,718	7,389,633	7,461,279	-	-	7,461,279
from customers	52,496,062	52,341,065	-	-	52,341,065	49,885,158	49,729,679	-	-	49,729,679
Debt securities issued	539,648	579,096	-	579,096	-	539,648	579,096	-	579,096	-
Other financial liabilities	1,145,167	1,143,777	-	-	1,143,777	1,106,544	1,105,154	-	-	1,105,154

47 Fair value of financial assets and liabilities *(continued)*

47.1 Financial instruments whose amortised cost in the statement of financial position whose fair value is disclosed in the notes *(continued)*

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 subordinated liabilities measured at amortized cost is based on market prices or on observable market parameters, if these are available, otherwise it is estimated by taking into consideration the actual interest rate environment and in this case they are allocated to Level 2.

The fair value of deposits and other financial liabilities measured at amortized cost is estimated by taking into consideration the actual interest rate environment and own credit spreads, and these are allocated to Level 3.

47.2 Financial instruments measured at fair value in the statement of financial position

Group

in RON thousands	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	
Assets	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**
Financial assets - held for trading	**178,095**	**49,875**	**33,738**	**51,944**	**2,132**	**2,875**	**213,965**	**104,694**
Derivatives	-	-	28,930	38,574	2,132	2,875	31,062	41,449
Other financial assets held for trading	178,095	49,875	4,808	13,370	-	-	182,903	63,245
Financial assets designated at FV through profit or loss	-	-	-	15,131	-	-	-	15,131
Non-trading financial assets at fair value through profit or loss	**2,400**	**-**	**-**	**-**	**36,995**	**-**	**39,395**	**-**
Equity instruments	2,400	-	-	-	31,075	-	33,475	-
Loans and advances	-	-	-	-	5,920	-	5,920	-
Financial assets at fair value through other comprehensive income	**5,031,042**	**-**	**144,301**	**-**	**46,738**	**-**	**5,222,081**	**-**
Equity instruments	-	-	-	-	40,721	-	40,721	-
Debt securities	5,031,042	-	144,301	-	6,017	-	5,181,360	-
Financial assets available for sale	-	5,637,316	-	908,142	-	54,492	-	6,599,950
Total assets	**5,211,537**	**5,687,191**	**178,039**	**975,217**	**85,865**	**57,367**	**5,475,441**	**6,719,775**
Liabilities								
Financial liabilities - held for trading	-	-	32,988	44,661	-	-	32,988	44,661
Derivatives	-	-	32,988	44,661	-	-	32,988	44,661
Total liabilities	**-**	**-**	**32,988**	**44,661**	**-**	**-**	**32,988**	**44,661**

Bank

in RON thousands	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	
Assets	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**
Financial assets - held for trading	**178,095**	**49,875**	**33,864**	**51,944**	**2,133**	**2,875**	**214,092**	**104,694**
Derivatives	-	-	29,056	38,574	2,133	2,875	31,189	41,449
Other financial assets held for trading	178,095	49,875	4,808	13,370	-	-	182,903	63,245
Financial assets designated at FV through profit or loss	-	-	-	15,131	-	-	-	15,131
Non-trading financial assets at fair value through profit or loss	**2,400**	**-**	**-**	**-**	**36,752**	**-**	**39,152**	**-**
Equity instruments	2,400	-	-	-	30,832	-	33,232	-
Loans and advances	-	-	-	-	5,920	-	5,920	-
Financial assets at fair value through other comprehensive income	**5,031,042**	**-**	**109,239**	**-**	**46,738**	**-**	**5,187,019**	**-**
Equity instruments	-	-	-	-	40,721	-	40,721	-
Debt securities	5,031,042	-	109,239	-	6,017	-	5,146,298	-
Financial assets available for sale		5,212,252		880,480		54,260	-	6,146,992
Total assets	**5,211,537**	**5,262,127**	**143,103**	**947,555**	**85,623**	**57,135**	**5,440,263**	**6,266,817**
Liabilities								
Financial liabilities - held for trading	-	-	32,988	44,661	-	-	32,988	44,661
Derivatives	-	-	32,988	44,661	-	-	32,988	44,661
Total liabilities	**-**	**-**	**32,988**	**44,661**	**-**	**-**	**32,988**	**44,661**

47. Fair value of financial assets and liabilities *(continued)*

47.2 Financial instruments measured at fair value in the statement of financial position *(continued)*

Financial assets held for trading position has increased during 2018 mostly due to investment in government bonds which represent 95% from total position. The remaining 5% represent investment in T-bills.

Non-trading financial assets at fair value through profit or loss position includes:

- loans and advances to customers classified at fair value through profit and loss according to IFRS 9 due to failure to pass the SPPI (solely payments of principal and interest) test.

The methodology to compute the fair value of these assets corresponds to the basic present value technique where expected cash flows of assets are discounted by the full rate including credit risk, market risk and cost components. The credit risk is incorporated in the assessment of cash flows in order to come to expected cash flows accounting for customer's probability of default. These cash flows are then adjusted with the discount rate.

- equity instruments, in principal minority interests classified as level 3 instruments for which the fair value is determined based on internal assessment. The most common valuation methods used in the evaluation of minority interest are: Quoted price in active markets, Expert opinion or Recent transaction value, Discounted Cash Flow Method / Dividend Discount Model, the adjusted Net Asset Value, Simplified income approach.

Financial assets at fair value through other comprehensive income includes:

- Debt securities issued by Ministry of Finance which are actively traded classified on level 1 and 2.
- Visa INC Preferred Share equity for which fair value is computed based on internal assessment and one corporative bond which is theoretically priced are presented on level 3.

47.3 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%.

As at December 2018, the fair valuation of VISA Inc preferred shares was based on reasonable assumptions and estimations and was consequently classified in level 3. The sale of shares is 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%.

47. Fair value of financial assets and liabilities *(continued)*

47.4 Movements in Level 3 of financial instruments carried at fair value

Group

in RON thousands	Balance	Gain/loss in profit or loss	Gain/loss in other comprehensive income	Purchases	Sales	Currency translation	Balance
Assets	**01.01.2018**						**31.12.2018**
Financial assets - held for trading	**2,875**	**(743)**	**-**	**-**	**-**	**-**	**2,132**
Derivatives	2,875	(743)	-	-	-	-	2,132
Non-trading financial assets at fair value through profit or loss	**39,118**	**5,928**	**-**	**-**	**(8,062)**	**11**	**36,995**
Equity instruments	18,509	12,555	-	-	-	11	31,075
Loans and advances	20,609	(6,627)	-	-	(8,062)	-	5,920
Financial assets at fair value through other comprehensive income	**33,846**	**-**	**7,887**	**5,005**	**-**	**-**	**46,738**
Equity instruments	33,846	-	6,875	-	-	-	40,721
Debt securities	-	-	1,012	5,005	-	-	6,017
Total assets	**75,839**	**5,185**	**7,887**	**5,005**	**(8,062)**	**11**	**85,865**

Group

in RON thousands	Balance	Gain/loss in profit or loss	Gain/loss in other comprehensive income	Purchases	Sales	Transfer from Level 3	Balance
Assets	**01.01.2017**						**31.12.2017**
Financial assets - held for trading	**4,171**	**(758)**	**-**	**-**	**-**	**(538)**	**2,875**
Derivatives	3,633	(758)	-	-	-	-	2,875
Other trading assets	538	-	-	-	-	(538)	-
Financial assets designated at fair value through Profit or 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**

Bank

in RON thousands	Balance	Gain/loss in profit or loss	Gain/loss in other comprehensive income	Purchases	Sales	Currency translation	Balance
Assets	**01.01.2018**						**31.12.2018**
Financial assets - held for trading	**2,875**	**(742)**	**-**	**-**	**-**	**-**	**2,133**
Derivatives	2,875	(742)	-	-	-	-	2,133
Non-trading financial assets at fair value through profit or loss	**38,885**	**5,929**	**-**	**-**	**(8,062)**	**-**	**36,752**
Equity instruments	18,276	12,556	-	-	-	-	30,832
Loans and advances	20,609	(6,627)	-	-	(8,062)	-	5,920
Financial assets at fair value through other comprehensive income	**33,846**	**-**	**7,887**	**5,005**	**-**	**-**	**46,738**
Equity instruments	33,846	-	6,875	-	-	-	40,721
Debt securities	-	-	1,012	5,005	-	-	6,017
Total assets	**75,606**	**5,187**	**7,887**	**5,005**	**(8,062)**	**-**	**85,623**

Bank

in RON thousands	Balance	Gain/loss in profit or loss	Gain/loss in other comprehensive income	Purchases	Sales	Transfer from Level 3	Balance
Assets	**01.01.2017**						**31.12.2017**
Financial assets - held for trading	**4,171**	**(758)**	**-**	**-**	**-**	**(538)**	**2,875**
Derivatives	3,633	(758)	-	-	-	-	2,875
Other trading assets	538	-	-	-	-	(538)	-
Financial assets designated at fair value through Profit or Loss	15,319	185	-	185	-	(15,504)	-
Financial assets available for sale	280,622	(566)	(302)	-	(432)	(225,062)	54,260
Total assets	**300,112**	**(1,139)**	**(302)**	**185**	**(432)**	**(241,104)**	**57,135**

The difference between closing 2017 and opening 2018 is due to IFRS 9 restatement and refers mainly to reclassification of loans and advances to customers from amortised loans under IAS 39 to FVTPL under IFRS 9. More details can be found in chapter 2.3.

48. Fair values of non-financial assets

The following table shows fair values and fair value hierarchy of non-financial instruments at the year-end 2018 and 2017:

				2018	Group
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	162,806	199,167	-	-	199,167
Assets whose Fair Value is presented in the Balance sheet					
Assets held for sale (IFRS 5)	161,114	210,948	-	-	210,948

				2017	Group
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)	43,039	42,513	-	-	42,513

				2018	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	162,806	199,167	-	-	199,167
Assets whose Fair Value is presented in the Balance sheet					
Assets held for sale (IFRS 5)	117,699	167,533	-	-	167,533

				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)	14,792	14,267	-	-	14,267

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.

48. Fair value of non-financial assets *(continued)*

in RON thousands	Fair value	Valuation technique	Inputs used	Range of inputs (weighted average)	Reasonable change	Sensitivity of fair value measurement
					2018	Group
Investment property	199,167	Market value	Discounted cash flow	Comparable market data	10%	19,917
Assets held for sale (IFRS 5)	210,948	Market value	Discounted cash flow	Comparable market data	10%	21,095
Total recurring fair value measurements at Level 3	**410,115**					**41,012**

in RON thousands	Fair value	Valuation technique	Inputs used	Range of inputs (weighted average)	Reasonable change	Sensitivity of fair value measurement
					2018	Bank
Investment property	199,167	Market value	Discounted cash flow	Comparable market data	10%	19,917
Assets held for sale (IFRS 5)	167,533	Market value	Discounted cash flow	Comparable market data	10%	16,753
Total recurring fair value measurements at Level 3	**366,700**					**36,670**

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.

49. 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 2018 and 2017:

	Group		Bank	
in RON thousands	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**
Fees for the audit of the financial statements and the consolidated financial statements	2,351	2,823	2,006	2,428
Other services involving the issuance of a report	1,434	896	1,227	750
Other services (non-audit fees)	-	750	-	693
TOTAL	**3,785**	**4,469**	**3,233**	**3,871**

50. Contingent liabilities and commitments

Contingent liabilities and commitments are presented in Note 46.5. Credit risk

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.

50. Contingent liabilities and commitments *(continued)*

Legal claims

As at 31 December 2018, the Bank was involved in the normal course of its business in a number of 3,720 other litigation as defendant (31 December 2017: 3,885).

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 2018.

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 Comert 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 2018 and 31 December 2017 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. CoA appealed this decision. The Supreme Court decided (final decision) on October 03, 2018 to reject the recourse initiated by Court of Accounts against the resolution issued by Bucharest Court of Appeal. As a consequence, the suspension of all measures disposed by CoA against BCR BpL shall be maintained until the final solution to be pronounced by the Supreme Court in BCR BpL Annulment Action;
- An action for annulment of the decision of CoA - Court of Appeal pronounced its resolution on March 1st 2017 and decided in favour of BCR Bpl for 5 out of 8 claims. Currently, the case is under Recourse procedure at Supreme Court of Justice ('ICCJ'). 1st hearing in the Recourse was set by ICCJ, for June 26, 2020. BCR BpL submitted to ICCJ a special request for changing this date, June 26, 2020, with an earlier date – on February 15, 2019. ICCJ decided to set the hearing for May 24, 2019.

The 3 claims maintained have a disputed amount on closed or assigned contracts estimated by the Bank at RON 19 million (principal). Considering the likelihood of winning the respective litigation BpL did not book any related provisions.

50. Contingent liabilities and commitments *(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 as of 31.12.2018. Please refer to Note 45 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% was not changed.

Within the procedural phase related to exchanging memorandums by each party – pending the second phase for exchanging memorandums. On December 17th, 2018, the City Hall submitted its second memorandum and on March 18th, 2019, BCR will follow by submitting its second memorandum.

Tax related litigation

Transfer Pricing

From 3 May 2016 to 9 June 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 1 January 2012 to 31 – December 2015. The main topic analysed by the Romanian Tax Authority were the intragroup transactions performed by BCR with its related parties during the period under investigation with a focus on financial transactions. Following performance of the tax audit, the Romanian Tax Authority increased Corporate Income Tax Expense by 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 the additional Corporate Income Tax Liability. The Bank's management considered that the original fiscal treatment applied by the Bank is correct and that there are strong arguments against the Romanian Tax Authority's conclusions. As such, the Bank's management acted to challenge the tax audit results by using available legal means during 2018 and the litigation is in progress.

The view of the Bank's Management, based on the tax and legal advisers of the Bank, is that it is more likely than not that the Bank will win in the Court of Law against the Romanian Tax Authority. Therefore, in addition, the potential risk that the Romanian Tax Authorities can legitimately charge withholding tax related to the respective financial transactions is considered not probable.

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 – 2018. 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 the period 2016 to 2018 and therefore, no provision has been recognized.

Impairment of subsidiaries

In 2017, the Bank applied for deductibility of expenses for the impairment of subsidiaries. Despite all the arguments put forward by the Bank, the tax authorities considered that the expenses incurred by the Bank related to impairment of its subsidiaries are not deductible. The previously recognized deferred tax asset for these temporary differences was reversed by BCR during 2017, as in the event of disposing of the subsidiary, the Bank will not benefit from deductibility of the related impairment accumulated. In the same time, the Bank's Management considered 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 filled by the Bank. The tax provisions in force during the period reviewed state that the expenses related to the impairment of the 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.

Therefore, a non-current tax asset referring to the tax on the impairment of the subsidiaries for the period 2012 – 2015 that the Bank considers to be deductible from a fiscal perspective was recognized in 2017, and maintained in 2018.

Currently there is considerable uncertainty as to the timing of the final resolution of the tax related matters described above as this depends upon the completion of the relevant appeal/ litigation procedures."

51. Split between current and non-current assets and liabilities

Expected remaining maturities of assets and liabilities

Group

	31.12.2018		31.12.2017	
in RON thousands	**Current**	**Non - current**	**Current**	**Non - current**
Cash and cash balances	11,123,191	-	11,369,344	-
Financial assets held for trading	195,238	18,727	22,417	82,277
Derivatives	12,335	18,727	8,380	33,069
Other financial assets held for trading	182,903	-	14,037	49,208
Financial assets designated at fair value through profit or loss	-	-	-	15,131
Non-trading financial assets at fair value through profit or loss	37,185	2,210		
Financial assets available for sale	-		1,835,560	4,764,390
Financial assets at fair value through other comprehensive income	839,903	4,382,178		
Financial assets - held to maturity			728,748	14,028,146
Loans and advances to banks			106,545	2,108,568
Loans and advances to customers			10,017,818	23,473,065
Financial assets at amortised cost	10,017,806	40,825,413		
Debt securities	1,057,079	14,822,029		
Loans and advances to banks	123,840	-		
Loans and advances to customers	8,836,887	26,003,384		
Finance lease receivables	349,821	641,047		
Property and equipment	-	1,169,260	-	1,315,683
Investment property	-	162,806	-	121,490
Intangible assets	-	361,898	-	320,872
Investments in joint ventures and associates	-	20,027	-	17,375
Current tax assets	181,800	-	-	86,736
Deferred tax assets	-	202,165	-	168,778
Assets held for sale	161,114	-	43,039	-
Trade and other receivables	558,564	4,450		
Other assets	219,628	55,874	164,858	140,399
Total assets	**23,684,250**	**47,846,055**	**24,288,329**	**46,642,910**
Financial liabilities held for trading	5,474	27,514	17,462	27,199
Derivatives	5,474	27,514	17,462	27,199
Financial liabilities measured at amortised cost	54,499,675	7,119,133	50,257,402	11,749,665
Deposits from banks	1,821,636	3,756,444	2,184,316	5,641,874
Deposits from customers	51,920,729	3,178,230	46,730,459	5,765,603
Debt securities issued	169,202	179,951	197,460	342,188
Other financial liabilities	588,108	4,508	1,145,167	-
Provisions	1,976	1,149,712	42,826	1,149,739
Current tax liabilities	97,782	-	230	-
Deferred tax liabilities	-	-	-	25
Liabilities associated with assets held for sale	15,438	-	12,819	-
Other liabilities	240,629	6,258	234,759	-
Total Liabilities	**54,860,974**	**8,302,617**	**50,565,498**	**12,926,628**

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.

51. Split between current and non-current assets and liabilities *(continued)*

Expected remaining maturities of assets and liabilities

				Bank
	31.12.2018		31.12.2017	
in RON thousands	Current	Non - current	Current	Non - current
Cash and cash balances	10,862,852	-	11,245,387	-
Financial assets held for trading	195,238	18,854	22,417	82,277
Derivatives	12,335	18,854	8,380	33,069
Other financial assets held for trading	182,903	-	14,037	49,208
Financial assets designated at fair value through profit or loss			-	15,131
Non-trading financial assets at fair value through profit or loss	37,186	1,966		
Financial assets available for sale			1,531,251	4,615,741
Financial assets at fair value through other comprehensive income	804,841	4,382,178		
Financial assets - held to maturity			683,905	12,691,824
Loans and advances to banks			311,468	2,108,567
Loans and advances to customers			9,385,601	22,634,705
Financial assets at amortised cost	9,602,081	39,130,487		
Debt securities	687,374	13,610,531		
Loans and advances to banks	388,848	-		
Loans and advances to customers	8,525,859	25,519,956		
Property and equipment	-	760,646	-	1,015,988
Investment property	-	162,806	-	121,490
Intangible assets	-	354,020	-	314,231
Investments in joint ventures and associates	-	7,509	-	7,509
Current tax assets	178,822	-	-	83,435
Deferred tax assets	-	197,061	-	157,361
Assets held for sale	117,699	-	14,792	-
Trade and other receivables	541,868	1,311		
Investments in subsidiaries		403,152		533,510
Other assets	148,677	-	39,160	118,735
Total assets	**22,489,264**	**45,419,990**	**23,233,981**	**44,500,504**
Financial liabilities held for trading	5,474	27,514	17,462	27,199
Derivatives	5,474	27,514	17,462	27,199
Financial liabilities measured at amortised cost	53,684,792	4,642,192	49,670,672	9,250,311
Deposits from banks	2,240,403	2,550,801	2,627,169	4,762,464
Deposits from customers	50,686,758	1,906,932	45,739,499	4,145,659
Debt securities issued	169,202	179,951	197,460	342,188
Other financial liabilities	588,429	4,508	1,106,544	-
Provisions		1,120,255	-	1,149,625
Current tax liabilities	97,110	-	-	-
Other liabilities	193,842	-	174,559	-
Total Liabilities	**53,981,218**	**5,789,961**	**49,862,693**	**10,427,135**

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.

52. 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.

52. Own funds and capital requirements *(continued)*

All requirements as defined in the CRR, the NBR and the aforementioned technical standards are fully applied by BCR Group and BCR Bank.

	Group		Bank	
in RON thousands	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**
Tier 1 Capital	6,635,917	6,763,908	6,650,968	6,717,824
Tier 2 Capital	633,126	1,017,698	633,126	949,952
Total own funds	**7,269,043**	**7,781,606**	**7,284,094**	**7,667,776**
Risk Weighted Exposure Amounts For Credit, Counterparty Credit And Dilution Risks And Free Deliveries	29,047,711	26,155,342	27,315,814	24,762,586
Total Risk Exposure Amount for Position, Foreign Exchange and Commodities Risks	258,730	163,507	42,094	56,197
Total Risk Exposure Amount for Operational Risk	7,753,036	9,242,799	7,356,092	8,832,008
Total Risk Exposure Amount for Credit Valuation Adjustment	15,815	16,177	15,815	16,177
Total Risk Exposure Amount	**37,075,292**	**35,577,825**	**34,729,815**	**33,666,968**
Capital Ratios				
Total capital ratio	19.61%	21.87%	20.97%	22.78%
T1 Capital ratio	17.90%	19.01%	19.15%	19.95%

Note: The profit of the year 2018 is not included in Total own funds. Comparing with financial statements 2017, the remaining part of the audited profit after dividends distribution was included in own funds as per approval of General Shareholders Meeting.

During 2018, the Group and also the Bank were fully compliant with the limits imposed by the above regulations.

53. Country by country reporting

			Group	31.12.2018
Country	**Operating income**	**Pre-tax result from continuing operations**	**Taxes on income**	**Taxes paid**
Romania	3,263,782	1,424,463	(225,649)	(254,412)
Moldova	21,788	4,019	(570)	
Total	**3,285,570**	**1,428,482**	**(226,219)**	**(254,412)**

			Group	31.12.2017
Country	**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**

54. Events after the balance sheet date

At the end of 2018, the Ministry of Finance announced a significant number of tax measures, which will take effect from 2019, set out in GEO 114/2018. These comprise increased or newly introduced parafiscal charges and tariffs, extension of the period of applicability of certain taxes that would otherwise have ceased to apply after 2018, as well as tax incentives dedicated to specific economic sectors.

The immediate and direct impact affects financial services and the private pension system, energy, telecommunications, cigarette production and gambling. The construction sector is the only area which benefits from tax incentives, but companies in the sector are required to increase the minimum guaranteed basic salary to 3,000 RON.

On the banking sector, the Ordinance establishes a new tax on the financial assets of banking institutions, defined as credit institutions, Romanian legal entities and Romanian branches of credit institutions of foreign legal entities. The tax is payable quarterly and is determined by applying progressive rates to the balance of the existing financial assets at the end of the quarter.

The tax rate on assets is differentiated according to the extent to which the 2% reference threshold is exceeded by the ROBOR quarterly average, as follows:

Computation of Tax rate

Quarterly average of ROBOR above the threshold	Asset tax rates
<= 0.5%	0.10%
0.51% - 1.0%	0.20%
1.01% - 1.5%	0.30%
1.51% - 2.0%	0.40%
>2.0%	0.50%

ROBOR quarterly average is based on ROBOR 3M and ROBOR 6M rates computed and published by the National Bank of Romania for the last quarter/semester prior to the quarter/semester prior to the quarter of computation. The computation and publication of the quarterly average is performed by the National Commission for Strategy and Prognosis and published on its website.

The Bank performed a high level simulation of the impact of the tax on the initial budget approved in December 2018 by the Management Board and the Supervisory Board. However, there is a high uncertainty regarding the tax impact, both in terms of whether it will finally be applied in the current form given the ongoing discussion between Government representatives and affected market representatives, as well as in terms of the actual level of the tax given the linkage to ROBOR.

The impact reflected in the financial statements as at 31.12.2018 is referring to the GEO no. 114/2018 version as it was published in the Official Gazette no. 1116/29.12.2018.

AUTHORISED PERSON,
First name and name
Signature

Executive Vice-President,

Elke Meier

BANCA COMERCIALA ROMANA
BCR
Cabinet Vice Presedinte Financiar

AUTHORISED PERSON,
First name and name
Signature

Executive Director Accounting Division,

Gina Badea

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

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Înmatriculată la Registrul Comerţului: 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 evidenţă a prelucrărilor de date cu caracter personal sub nr. 3776 şi 3772
Capital Social: 1.625.341.625,40 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, 2018 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 Elke Meier as Executive Vicepresident of Banca Comerciala Romana SA, undertake the responsibility for the preparation of the Separate and Consolidated Financial Statements as at 31.12.2018 and we confirm the following:

a) The accounting policies applied for the preparation of the separate and consolidated financial statements for the year ended 2018 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,
Elke Meier

BANCA COMERCIALA ROMANA S. A.
Nr. Cabinet Presedinte 4 / 22.03.2019
Consiliul de Supraveghere

Banca Comerciala Romana S.A.
Administrators' Report
Consolidated and Separate

31 December 2018

Administrators' report
Consolidated and Separate for the year ended 31 December 2018

Contents of the administrators' report

1. Macroeconomic developments

Economic growth was 4.2% in January-September 2018, driven by changes in inventories and household consumption. Gross fixed capital formation made a negative contribution to real GDP in the context of deep contraction of residential investments. Net exports contributed negatively to growth. The supply side of economic growth shows that industrial production, trade and services and agriculture helped real GDP, although most of these components saw a slowdown compared to 2017. Diminishing support from external demand amidst slower Eurozone growth and trade tensions between the US and China, along with less traction from the domestic fiscal stimulus, explained the slowdown of the Romanian economy.

The inflation rate was above the NBR's target for most of 2018, with a peak of 5.4% y/y in May and June, after increases in the prices of car fuel and energy. Beginning in 4Q18, the inflation rate embarked on a downward trend due to cheaper Brent oil on global markets and finished the year inside the NBR's target, at 3.3% y/y. After rising slightly above 3% in spring, core inflation fell to 2.5% in December. The NBR reacted gradually to inflationary pressures from the first part of 2018 and increased the policy rate three times (in January, February and May, each a step of 25bp). In October 2018, the NBR announced a series of prudential measures for retail lending which came into force on January 1, 2019, setting the indebtedness level at 40% of net income for loans denominated in leu and 20% for FX loans.

The current account deficit widened to an estimated level of 4.5% of GDP in November 2018 (12-month rolling sum) from 3.2% of GDP at the end of 2017, due to rising imports of consumer goods and smaller inflows of EU agricultural subsidies in 2H18. The trade surplus for services levelled off, adding more pressure to the external imbalance. Foreign direct investments amounted to EUR 5.2bn in the 12 months ending in November 2018, covering 56% of the current account deficit.

The budget deficit was RON 27.3bn (2.9% of estimated GDP) on cash standards in 2018. Unlike previous years, public expenditures were more evenly distributed throughout 2018, thus reducing the strong seasonality of the budget deficit. December alone saw a series of extraordinary budgetary items which helped the government maintain the full-year deficit inside the target, like a last-minute inclusion of revenues from EU funds, recovery of payments made by the government in the past and disbursement of special dividends by SOEs.

Money market rates increased in 2018 due to the NBR's rate hiking cycle and the 3M ROBOR ended the year at 3.02%, from 2.05% in early-January. Bond yields also moved higher in 2018, with the strongest increase being seen at the short end of the curve, which was impacted by the NBR's monetary policy decisions (to the tune of 120bp) and a smaller increase for medium- and long-term maturities influenced by global conditions (50-60bp). Helped by the NBR, the Romanian leu was unusually stable throughout 2018, trading inside a corridor with a maximum width of 1.5%, well below the volatility of its CEE peers.

The predictability and coherence of the legislative framework took a turn for the worse at the end of 2018, when the government adopted an emergency ordinance and introduced sector taxes on banks' financial assets, energy and telecom companies. The current architecture of the private pension system was deeply changed, enabling participants to exit the pillar II system after five years of paid contributions, introducing severe capital requirements for companies and capping the fees paid by clients.

Important events since end of 2018

The NBR kept the policy rate unchanged at 2.5% in January and February 2019, due to weaker inflationary pressures and uncertainties related to the banking tax. A vote in the parliament for the state budget for 2019 was postponed until February, in a sign that, after several years of loose fiscal policy, the government had difficulties in finding additional budgetary resources to finance higher expenditures for pensions and wages. At the beginning of February, the NBR and the Ministry of Finance decided to set up a technical committee to analyze the impact of the banking tax.

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.

2. General presentation (*continued*)

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 21 business centres and 20 mobile offices dedicated to companies and 509 retail units located in the majority cities with a population of over 10,000 inhabitants from all across the country.

BCR is one of the most important financial groups on the Romanian market for banking-transaction, having the largest national ATM network over 2,000 automatic teller machines.

Bank and subsidiaries

During 2018, 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 2018	Shareholding 2017	Gross Book Value	Net Book Value	Impaiment
BCR Chisinau SA	Moldova	Banking	100.00%	100.00%	200,064	51,174	148,890
BCR Leasing IFN SA	Romania	Financial leasing	99.97%	99.97%	389,492	190,273	199,219
BCR Pensii, Societate de Administrare a Fondurilor de Pensii Private SA	Romania	Pension Fund	99.99%	99.99%	269,820	159,805	110,015
BCR Banca pentru Locuinte SA	Romania	Housing loans	99.99%	99.99%	108,078	-	108,078
Suport Colect SRL	Romania	Workout	99.99%	99.99%	983,047	-	983,047
CIT One SRL	Romania	Cash processing and storing	100.00%	100.00%	13,308	7,255	6,053
BCR Payments Services SRL	Romania	Payments transactions	99.99%	99.99%	1,900	1,900	-
BCR Fleet Management SRL *	Romania	Operational leasing	99.97%	99.97%	-	-	-

*Company held indirectly by BCR through BCR Leasing SA

3. 2018 financial and commercial highlights

The BCR impact in the economy

In 2018, BCR approved new corporate loans (credit facilities, letters of credit, letters of guarantee, trade finance facilities) amounting to RON 7.1 billion RON (EUR 1.5 billion) for activities that have created thousands of jobs and generated new investments or have expanded the existing production facilities. Major sectors such as manufacturing (mainly automotive), agriculture, healthcare and IT have been financed.

BCR acted as a trusted partner for local entrepreneurs so that the total stock of SME financing, including leasing, recorded a 15% increase as compared to 2017, exceeding RON 5.4 billion (EUR 1.2 billion).

In retail banking business, BCR was a trustworthy and predictable partner by offering fixed-rate loans in RON. In 2018, BCR generated total new loans in local currency to individuals and micro-business of over 8 billion RON (EUR 1.7 billion), based on a 50% increase in sales of "Divers" cash loan and a three-fold increase in sales in the standard mortgage product "Casa mea", as compared to 2017. BCR has strengthened its position as the main banking partner for Romanians who want to buy a house, with more than 22% of the newly originated mortgage loans in 2018.

BCR signed a strategic partnership with IKEA, through which the bank provided more than 8,000 credit cards in just six months, establishing a record achievement for the retailer's global network.

Micro-business sales increased by 32% compared to 2017, supported by launching new products and by the key role played by BCR in the Start-Up Nation governmental program. Sales were boosted by the launch in the second half of 2018 of the BCR Immediat financing solution dedicated to companies with a turnover between 1 and 3 EUR million.

Co-financing of EU funded projects increased over the past year, BCR having a significant market share and a total co-financing portfolio of EUR 1.84 billion. The largest share of the funding went to infrastructure, rural and regional development projects.

BCR has achieved the great performance to include Romania into Guinness World Records, by organizing the largest financial education lesson through the Money School program in which 13,230 Romanians from all over the country were taught simultaneously. In 2018, more than 110,000 people attended the financial education lessons taught by the over 1,000 financial education teachers.

In September, the bank launched the intelligent banking platform George, which reached 300,000 users by the end of 2018. The introduction of George was one of the growth engines in digital retail transactions, which increased by 36% to 14 million.

BCR Group performance in 2018

The operating result increased to RON 1,635.4 million (EUR 351.4 million), higher by 21.7% than the previous year when it stood at RON 1,343.7 million (EUR 294.1 million), driven by improved operating income, overcompensating increase in operating expenses.

Net interest income increased significantly by 16.0%, to RON 2,047.2 million (EUR 439.9 million), from RON 1,764.2 million (EUR 386.2 million) in 2017, supported by increase in market interest rates and higher volumes of loans and current accounts.

Net fee and commission income advanced by 0.9% to RON 706.8 million (EUR 151.9 million), from RON 700.7 million (EUR 153.4 million) in 2017, despite the fierce competition and highly regulated market environment.

Net trading result increased by 26.0% to RON 446.8 million (EUR 96.0 million), from RON 354.7 million (EUR 77.6 million) in 2017, mainly driven by higher exchanged currency volumes.

The operating income increased by 13.8% to RON 3,285.6 million (EUR 706.0 million) from RON 2,887.9 million (EUR 632.1 million) in 2017, driven by higher net interest income, slightly better fee income and higher net trading result.

General administrative expenses in 2018 reached RON 1,650.2 million (EUR 354.6 million), up by 6.9% in comparison to RON 1,544.2 million (EUR 338.0 million) in 2017, mainly due to higher personnel expenses, higher depreciation related to IT projects and costs related to new headquarters.

As such, **cost-income ratio** stood at 50.2% in 2018, versus 53.5% in 2017.

3. 2018 financial and commercial highlights (*continued*)

Risk costs and Asset Quality

Risk cost allocations in 2018 amounted to RON 121.2 million (RON 32.4 million in 2017), translating into an annual risk cost ratio of 32bps, significantly better than normalized risk cost given further releases from the non-performing portfolio following further clean-up actions and portfolio improvement.

NPL ratio at 5.8%, as of 31 December 2018, reduced versus 8.1% as of December 2017, driven by good trend in recoveries and transition to IFRS 9. NPL provisioning coverage reached 100.3% as of December 18.

Capital position and funding

Solvency ratio, bank only, according to the capital requirements regulations (CRR) was 21.0% as of December 2018, well above the regulatory requirements of the National Bank of Romania. Furthermore, Tier 1+2 capital ratio of 19.6% (BCR Group) as of December 2018 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 lending growth in both Retail and Corporate business lines, further reinforcing core revenue generating capacity.

Loans and receivables to customers and trade and other receivables increased by 8.7% to RON 36,400.1 million (EUR 7,805.3 million) as of 31 December 2018, from RON 33,490.9 million (EUR 7,189.2 million) as of December 2017, mainly on the back of strong advance in retail, while corporate loans increased marginally.

Deposits from customers increased by 5% to RON 55,099 million (EUR 11,814.9 million) as of 31 December 2018, versus RON 52,496.1 million (EUR 11,268.9 million) as of 31 December 2017 driven by increase in retail deposits.

4. Outlook for BCR's activity in 2019

4.1. 2019 expected macroeconomic development

The Romanian economy is expected to continue to cool off in 2019 in the context of slower European growth, reduced fiscal stimulus and slowing wage growth, which will constrain expansion of exports and consumption, respectively, while in the case of investments we expect only a moderate contribution to growth, given the government's lack of fiscal space and tepid absorption of EU funds. Our current forecast for the real GDP indicates a low single-digit growth in 2019.

4.2. Banking tax

At the end of 2018, the Ministry of Finance announced a significant number of tax measures, which will take effect from 2019, set out in GEO 114/2018. These comprise increased or newly introduced parafiscal charges and tariffs, extension of the period of applicability of certain taxes that would otherwise have ceased to apply after 2018, as well as tax incentives dedicated to specific economic sectors.

The immediate and direct impact affects financial services and the private pension system, energy, telecommunications, cigarette production and gambling. The construction sector is the only area which benefits from tax incentives, but companies in the sector are required to increase the minimum guaranteed basic salary to 3,000 RON.

On the banking sector, the Ordinance establishes a new tax on the financial assets of banking institutions, defined as credit institutions, Romanian legal entities and Romanian branches of credit institutions of foreign legal entities. The tax is payable quarterly and is determined by applying progressive rates to the balance of the existing financial assets at the end of the quarter.

The tax rate on assets is differentiated according to the extent to which the 2% reference threshold is exceeded by the ROBOR quarterly average, as follows:

Computation of Tax rate:

Quarterly average of ROBOR above the threshold	Asset tax rates
<= 0.5%	0.10%
0.51% - 1.0%	0.20%
1.01% - 1.5%	0.30%
1.51% - 2.0%	0.40%
>2.0%	0.50%

4. Outlook for BCR's activity in 2019 (continued)

ROBOR quarterly average is based on ROBOR 3M and ROBOR 6M rates computed and published by the National Bank of Romania for the last quarter/semester prior to the quarter/semester prior to the quarter of computation. The computation and publication of the quarterly average is performed by the National Commission for Strategy and Prognosis and published on its website.

The Bank performed a high level simulation of the impact of the tax on the initial budget approved in December 2018 by the Management Board and the Supervisory Board. However, there is a high uncertainty regarding the tax impact, both in terms of whether it will finally be applied in the current form given the on-going discussion between Government representatives and affected market representatives, as well as in terms of the actual level of the tax given the linkage to ROBOR.

4.3. Balance Sheet developments

In the current context, BCR Group expects in 2019 a mid-single digit growth in net loans supported by both retail and corporate segments.

Growth in retail loans is assumed to be driven by the positive development of cash loans coupled with mortgage lending despite legislative regulatory changes. Corporate lending advance is backed mainly by the increase on SME and Real Estate segments.

On the liabilities side, BCR will continue to capitalize on its very strong customer deposit base, further increasing the share of current accounts. Furthermore, BCR will continue to replace the intragroup long term funding by customer deposits. 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 follow estimated market growth development.

4.4. Income Statements developments

Net interest income is expected to continue growing in 2019, albeit at a slower pace as a consequence of stricter debt-to-income levels imposed by the Central Bank starting January 1st, with impact on new Retail loans, as well as the stabilization of market rates.

Net fee and commission income, the second key income component, is expected to slightly increase in 2019. Corporate fees are estimated to marginally grow in 2019 based on fee income generated by SME initiatives.

All in all, the operating income should grow by low single digit in 2019, with NII remaining the biggest contributor.

Operating expenses are expected to show a relatively stable development in 2019 compared to 2018, despite further investments and higher unit costs.

Risk costs should again support net profit in 2019, with expected recoveries partly covering allocations. 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 mid-single digit in 2019 (only high level estimation of the banking tax impact was considered at this moment).

5. Statement of financial position of the Group and of the BCR

5.1. Statement of compliance

As of 31 December 2018, 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 2018 were prepared in accordance with IFRS, observing also the specific group accounting policies of Erste Group, to which BCR Group belongs.

5. Statement of financial position of the Group and of the BCR (*continued*)

5.2. Assets

Total assets of BCR as at 31 December 2018 amounted to RON 67,909,254 thousands, increasing by 0.3% compared to 31 December 2017 (RON 67,734,485 thousands). At Group level, the total assets increased by 0.8% from RON 70,931,239 thousands as at 31 December 2017 to RON 71,530,305 thousands as at 31 December 2018.

In EUR equivalent, total bank's assets at 31 December 2018 represent 14,560.6 million, compared to EUR 14,536.2 million as at 31 December 2017 (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 0.1% at 2018 year end compared to the 2017 year end.

Evolution of total assets:

In RON thousands					Group
2013	2014	2015	2016	2017	2018
66,728,797	61,624,614	62,360,016	67,514,573	70,931,239	71,530,305

In RON thousands					Bank
2013	2014	2015	2016	2017	2018
63,509,963	59,037,134	59,460,913	64,068,225	67,734,485	67,909,254

Statement of financial position

ASSETS	Group			Bank		
in RON thousands	**31.12.2018**	**31.12.2017**	**2018/2017 %**	**31.12.2018**	**31.12.2017**	**2018/2017 %**
Cash and cash balances	11,123,191	11,369,344	-2.2%	10,862,852	11,245,387	-3.4%
Financial assets held for trading	213,965	104,694	104.4%	214,092	104,694	104.5%
Derivatives	31,062	41,449	-25.1%	31,189	41,449	-24.8%
Other financial assets held for trading	182,903	63,245	189.2%	182,903	63,245	189.2%
Financial assets designated at fair value through profit or loss	-	15,131	-100.0%	-	15,131	-100.0%
Non-trading financial assets at fair value through profit or loss	39,395	-	x	39,152	-	x
Equity instruments	33,475	-	x	33,232	-	x
Loans and advances to customers	5,920	-	x	5,920	-	x
Financial assets available for sale	-	6,599,950	-100.0%	-	6,146,992	-100.0%
thereof pledged as collateral	-	141,831	-100.0%	-	557,101	-100.0%
Financial assets at fair value through other comprehensive income	5,222,081	-	x	5,187,019	-	x
Equity investments	40,721	-	x	40,721	-	x
Debt securities	5,181,360	-	x	5,146,298	-	x
thereof pledged as collateral	-	-	x	41,748	-	x
Financial assets - held to maturity	-	14,756,894	-100.0%	-	13,375,729	-100.0%
thereof pledged as collateral	-	-	x	-	551,355	-100.0%
Loans and advances to banks	-	2,215,113	-100.0%	-	2,420,035	-100.0%
Loans and advances to customers	-	33,490,883	-100.0%	-	32,020,306	-100.0%
Financial assets at amortised cost	50,843,219	-	x	48,732,568	-	x
thereof pledged as collateral	690,952	-	x	1,693,280	-	x
Debt securities	15,879,108	-	x	14,297,905	-	x
Loans and advances to banks	123,840	-	x	388,848	-	x
Loans and advances to customers	34,840,271	-	x	34,045,815	-	x
Finance lease receivables	990,868	-	x	-	-	x
Property and equipment	1,169,260	1,315,683	-11.1%	760,646	1,015,988	-25.1%
Investment property	162,806	121,490	34.0%	162,806	121,490	34.0%
Intangible assets	361,898	320,872	12.8%	354,020	314,231	12.7%
Investments in joint ventures and associates	20,027	17,375	15.3%	7,509	7,509	0.0%
Current tax assets	181,800	86,736	109.6%	178,822	83,435	114.3%
Deferred tax assets	202,165	168,778	19.8%	197,061	157,361	25.2%
Assets held for sale	161,114	43,039	274.3%	117,699	14,792	695.7%
Trade and other receivables	563,014	-	x	543,179	-	x
Investments in subsidiaries	-	-	x	403,152	533,510	-24.4%
Other assets	275,502	305,257	-9.7%	148,677	157,895	-5.8%
Total assets	**71,530,305**	**70,931,239**	**0.8%**	**67,909,254**	**67,734,485**	**0.3%**

5. Statement of financial position of the Group and of the BCR (*continued*)

5.3. Statement of financial position – liabilities and equity

Liabilities and Equity	Group			Bank		
in RON thousands	**31.12.2018**	**31.12.2017**	**2018/2017 %**	**31.12.2018**	**31.12.2017**	**2018/2017 %**
Financial liabilities held for trading	32,988	44,661	-26.1%	32,988	44,661	-26.1%
Derivatives	32,988	44,661	-26.1%	32,988	44,661	-26.1%
Financial liabilities measured at amortised cost	61,618,808	62,007,067	-0.6%	58,326,984	58,920,983	-1.0%
Deposits from banks	2,127,723	3,205,191	-33.6%	3,076,973	4,180,001	-26.4%
Borrowings and financing lines	2,408,375	2,249,500	7.1%	672,249	838,133	-19.8%
Deposits from customers	55,098,959	52,496,062	5.0%	52,593,690	49,885,158	5.4%
Debt securities issued	349,153	539,648	-35.3%	349,153	539,648	-35.3%
Subordinated loans	1,041,982	2,371,499	-56.1%	1,041,982	2,371,499	-56.1%
Other financial liabilities	592,616	1,145,167	-48.3%	592,937	1,106,544	-46.4%
Provisions	1,151,688	1,192,565	-3.4%	1,120,255	1,149,625	-2.6%
Current tax liabilities	97,782	230	42413.9%	97,110	-	x
Deferred tax liabilities	-	25	-100.0%	-	-	x
Liabilities associated with assets held for sale	15,438	12,819	20.4%	-	-	x
Other liabilities	246,887	234,759	5.2%	193,842	174,559	11.0%
Total equity	**8,366,714**	**7,439,113**	**12.5%**	**8,138,075**	**7,444,657**	**9.3%**
Share capital	2,952,565	2,952,565	0.0%	2,952,565	2,952,565	0.0%
Retained earnings	3,766,482	2,667,566	41.2%	3,525,615	2,654,298	32.8%
Other reserves	1,647,667	1,818,982	-9.4%	1,659,895	1,837,794	-9.7%
attributable to non-controlling interest	46	36	27.8%	-	-	x
attributable to owners of the parent	8,366,668	7,439,077	12.5%	-	-	x
Total liabilities and equity	**71,530,305**	**70,931,239**	**0.8%**	**67,909,254**	**67,734,485**	**0.3%**

6. Income statement of the Group and of the BCR

	Group			Bank		
in RON thousands	**31.12.2018**	**31.12.2017**	**2018/2017%**	**31.12.2018**	**31.12.2017**	**2018/2017%**
Net interest income (1)	**2,047,195**	**1,764,197**	**16.0%**	**1,946,477**	**1,678,727**	**15.9%**
Interest income	2,545,368	2,195,669	15.9%	2,392,496	2,038,192	17.4%
Other similar income	38,693	40,835	-5.2%	38,489	40,571	-5.1%
Interest expense	(513,662)	(451,079)	13.9%	(461,631)	(378,830)	21.9%
Other similar expense	(23,204)	(21,228)	9.3%	(22,877)	(21,206)	7.9%
Net fee and commission income (2)	**706,814**	**700,738**	**0.9%**	**673,853**	**661,160**	**1.9%**
Fee and commission income	881,176	845,336	4.2%	824,162	792,219	4.0%
Fee and commission expense	(174,362)	(144,598)	20.6%	(150,309)	(131,059)	14.7%
Dividend income (3)	3,731	4,155	-10.2%	11,684	19,872	-41.2%
Net trading result (4)	431,709	329,191	31.1%	426,985	329,214	29.7%
Gains/losses from financial instruments measured at fair value through profit or loss (5)	18,429	1,689	991.1%	18,429	1,689	991.1%
Foreign currency translation (6)	(3,347)	23,815	-114.1%	(6,209)	17,251	-136.0%
Net result from equity method investments (7)	2,651	807	228.5%	-	-	x
Rental income from investment properties & other operating leases (8)	78,388	63,289	23.9%	11,045	9,840	12.2%
Personnel expenses (9)	(780,810)	(741,664)	5.3%	(684,947)	(661,913)	3.5%
Other administrative expenses (10)	(671,461)	(635,573)	5.6%	(689,897)	(652,791)	5.7%
Depreciation and amortisation (11)	(197,901)	(166,983)	18.5%	(136,238)	(117,269)	16.2%
Operating Income (1+2+3+4+5+6+7+8)	3,285,570	2,887,881	13.8%	3,082,264	2,717,753	13.4%
Operating Expenses (9+10+11)	(1,650,172)	(1,544,220)	6.9%	(1,511,082)	(1,431,973)	5.5%
Operating Result	1,635,398	1,343,661	21.7%	1,571,182	1,285,780	22.2%
Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss	2,221	151	1,370.9%	2,221	151	1,370.9%
Net impairment loss on financial instruments	(121,217)	(32,418)	273.9%	(122,361)	(22,699)	439.1%
Other operating result	(87,920)	(406,259)	-78.4%	(260,487)	(456,210)	-42.9%
Pre-tax result from continuing operations	**1,428,482**	**905,135**	**57.8%**	**1,190,555**	**807,022**	**47.5%**
Taxes on income	(226,219)	(237,008)	-4.6%	(220,108)	(236,712)	-7.0%
Net result for the period	1,202,263	**668,127**	**79.9%**	970,447	**570,310**	**70.2%**
Net result attributable to non-controlling interests	10	6	66.7%	-	-	x
Net result attributable to owners of the parent	**1,202,253**	**668,121**	**79.9%**	**970,447**	**570,310**	**70.2%**

7. Equity accounts and profit distribution

7.1. Equity accounts as at 31 December 2018

The Bank's equity as at December 31, 2018, amounts to RON 8,138,075 thousands and is detailed below:

	Bank
in RON thousands	
Share capital[1]	1,625,342
Adjustement of the capital - hyperinflation	1,327,223
Merger premium	395,483
Other reserves	1,130,670
Legal statutory reserves	569,355
General reserve regarding credit risk set up from profit before tax	162,935
Reserve on general banking risks	267,673
Other reserves	130,707
Fair value reserve	133,742
Retained earnings	2,555,168
Net profit for the period	970,447
Total amount of the Bank's equity	**8,138,075**

7. Equity accounts and profit distribution (*continued*)

[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;

During 2018, the Bank has sold the participation in Visa and Mastercard and an amount of RON 196,298 thousands was reclassified from Other comprehensive income to Retained earnings.

7.2. Profit distribution

The net profit of the Bank for the financial year ended 31 December 2018, amounting to RON 970,447,398 will be distributed according to the law.

The proposal for the distribution of profit is in accordance with art. 29 para. 1 of the Accounting Law no. 82/1991, republished as subsequently amended and supplemented. The Supervisory Board proposes to the General Meeting of Shareholders the distribution of 2018 net profit as follows:

Item	Amount - in RON
Dividend distribution[1]	485,223,699
Result reported [2]	485,223,699
Total	**970,447,398**

[1]The amount of RON 485,223,699 represents the gross amount of the dividends.

[2] The retained earnings totaling RON 485,223,699 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 "Common Equity Tier 1" 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 Common Equity Tier 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 2018, BCR Chisinau increased its net loan portfolio with 25% compared to 2017, up to MDL 756 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 the bank assets increased more than 20% (the second big increase in bank sector). This result was achieved due to clients' confidence in bank and BCR Chisinau has doubled its term deposits portfolio attracted from individuals (+116%).

For the first time since its founding, BCR Chisinau obtained financing from an International Financial Institution (European Bank for Reconstruction and Development) free from any guarantees from Erste/BCR Group.

The share of Non-performing loans decreased significantly in 2018 to 9.1% from 19.1% in 2017 (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 in accordance with the requirements applied in BCR/ Erste Group. In this context, the coverage on non-performing loans has increased from 68.2% in 2017 to 73.8% in 2018. However, BCR Chisinau registered a Net Profit in 2018 of MDL 14.7 million driven by the increase in its operating result (in 2017: MDL 17.6 million).

For 2019, the Bank's strategy is based on the following main pillars: increase of the self-funding, 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 2018, BCR Leasing focused on consolidating its activity, in particular strengthening its financial position reflected by the increase in profitability up to RON 36 million, by 13% 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 2018, BCR Leasing total assets increased by 18% compared to the previous year, reaching RON 1.94 billion based on the increase in sales volumes by 22% compared to last year, while the share of non-performing exposures was kept at a lower level of 2.5% (3.9% in 2017) reflecting the sustained efforts to improve the quality of the leasing portfolio, as well as the high quality of new sales.

The operating result increased by 11% compared to the previous year (RON 60.3 million in 2018 vs. RON 54.5 million in 2017), mainly due to the increase in net interest income by 11% (RON 69 million in 2018 vs. RON 62 million in 2017). In 2018, Cost/Income ratio continued at the same level of 33% compared to 2017, 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 2019, 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 2018.

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 2018 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 8.77% and 635,769 subscribers.

In terms of total number of subscribers for voluntary pensions funds, BCR Pensii ranked 2nd, with a market share of 28.64% corresponding to a number of 135,232 participants.

In 2018, BCR Pensii ranked 2nd position for voluntary pensions new sales, with 18.77% market share of new participants.

8. Subsidiaries business performance overview and predictions (*continued*)

The strategy of the subsidiary is to continue on the same trend as in the past years, to promote its two funds towards many more eligible prospects and of increasing the Pillar 3 sales quality and to improve the payment frequency .

The Ordinance 114/2018 brings amendments and supplements to Law no. 411/2004 regarding the privately managed pension funds republished as follows:

- contributors to privately managed pension funds may now opt to transfer their contributions from 2019 onward to the public pensions system (Pillar 1) if they at least 5 years tenors, while all their accumulated net assets up to the transfer date remain in the privately managed pension fund;
- the minimum social capital required to manage a private pension fund has been increased, from a fixed amount (EUR 4 milion) to a percentage of historical participants' contributions. This percentage increases progressively up to maximum of 10% of the value of the historical contributions. For 2019, two deadlines have been set, by which pension funds must prove that they have at least the minimum social capital, 30 June (50% of minimum share capital required) and 31 December 2019 (for full compliance with minimum share capital required);
- the level of management fees that can be charged by private pension fund managers has been significantly reduced. The fee has been reduced from a maximum of 2.5% to maximum 1%, out of which 0.5% will be transferred to the National House of Public Pensions. The maximum monthly commission from the total net assets of the privately managed pension fund, has been set in a range between 0.02% and 0.07% (depending on the rate of return of the fund relative to the inflation rate). (Under the previous rules, the maximum was 0.05%, without any link of investment performance versus inflation rate).

For the time being there are no norms issued by FSA in relation to the specific basis for capital requirement computation.

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 182.182 net contracts for customers who have realized savings of more than RON 2.42 billion. The estimated market share of deposits volumes (housing banks) at the end of 2018 is approx. 80%.

Lending activity, for approved loans, has grown by 134.89% at the end of 2018 (RON 107.39 million) compared to the end of 2017 (RON 45.72 million) and the estimated market share as of 31-December-2018 for outstanding loans granted by BCR Banca pentru Locuinte SA, is 60%.

The strategic priority of the company in 2018 was increasing the lending business by 75% versus 2017.

The loans' sales objective was exceeded, due to the competitive interest rates fixed for the entire loan reimbursement period and due to finalizing the projects related to the improvement of the efficiency of lending workflows.

BCR BpL focused as well on offering construction and renovation loans under the brand "BpL Expert in renovation" and integrating them in the BCR retail offer and on digitization by developing a mobile banking application for the direct sales force and an IT platform for introducing loans' files, used by the loan intermediaries such as brokers and direct sales force.

Restart the new Bauspar business in 2019- internal processes for restarting the saving-lending activity is started, have been reviewed 2019 sales targets (saving-lending "ECDL" and lending vs. BGT estimates), as a result of postponing the re-launch of saving / lending activity under the new law, and for compliance with the provisions of the methodological norms, approved and published in Official Monitor in March 04th 2019 ; BCR Banca Pentru Locuinte S.A. expects it activity to re-launch on May –June 2019.

Ambitious Lending increase expected starting 2020 – very challenging targets every year, to a maximum sustainable level; the volume of loans, although challenging in 2018, estimated for 2019 at a level close to what we are proposing to grant in 2020, without considering new lending products, more performing, based on the new law.

The Bank is also impacted by the Ordinance 114/2018 as it is described in chapter 4.4 Banking Tax.

8. Subsidiaries business performance overview and predictions (*continued*)

8.5. Suport Colect SRL

SC SUPORT COLECT SRL has carried its activity in accordance with the Charter and the object of activity of other activities auxiliary to financial services, except insurance and pension funding.

In 2018, 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.

In 2018, the Company reported for the consolidation purpose in BCR Group for 2018 a profit amount of RON 22.185 thousands RON (2017 loss: 8.235 thousands RON) mainly due to positive effect obtained from collection activity on the portfolio of loan receivables and to the litigations provisions release.

In 2019, 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 2018, company was focused on taking over of new non-BCR group clients; to complete the implementation of cashier arming project in all processing centres, relocation of Cluj and Deva PCs into new locations needed for taking over additional volumes and in line with last generation of security systems and increase of cars and processing equipment's fleet.

The financial result for the year ending 2018 is a profit in amount of RON 3.1 million. For 2019, CIT One mainly planned relocation of Brasov PC and to continue the renewal of armoured cars and processing equipment fleet. The sale process of CIT One was re-launched in 2018 with target to complete the transaction by mid of 2019.

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 6 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 335 million at the end of 2018 (2017: RON 225.2 million), showing an increase of almost 50% compared to last year. BCR Fleet Management's clients are mostly multinational corporations or large Romanian companies, as well as public sector organizations.

For 2019, 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 2018, 5.2 million transactions were processed and the company's profit at 31 December 2018 amounted RON 408 thousands.

In 2019, 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 2018 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).

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 reassessment might be carried out outside the annual review cycle if changed business parameters indicate a need for a respective reclassification.

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. The Bank's and group risk profile (*continued*)

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 2018, 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.

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. The Bank's and group risk profile (*continued*)

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.

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).

Furthermore, the funding liquidity risk is divided into structural liquidity risk (the long-term risk of losses due to a change in the bank's own refinancing cost or spread) and insolvency risk (the short term risk that current or future payment obligations cannot be met in full, on time in an economically justified way).

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, 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 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.

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 for the length of all predefined liquidity crisis scenarios. 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.

9. The Bank's and group risk profile (*continued*)

9.4.6. Liquidity & Funding Risk

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).

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.

9. The Bank's and group risk profile (*continued*)

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 2018 based on continuing initiatives / projects begun in the past year, such as the financial education program, strengthening corporate culture, using the 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:

- risk profile;
- risk appetite (RAS);
- risk bearing capacity (RCC);
- stress testing;
- risk planning and forecasting;
- recovery plan.

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. Risk management (*continued*)

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, 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. Risk management (*continued*)

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 organized, 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.

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 analyzing 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,

11. Statement regarding corporate governance (*continued*)

- 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:

- reducing the share capital or its increase, except the case when the increase is decided by the Management Board ;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 fixed 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, based on the last available annual financial statements;
- purchase by the Bank of its own shares, directly or indirectly, in accordance with the law;
- amending the Bank Charter;

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 (SB)

The SB shall supervise the Management Board in its operational management of the Bank and monitors the compliance of the activities performed by the Management Board pursuant to the Applicable Legislation, the Bank's Charter and the General Meeting of Shareholders decisions.

The Supervisory Board is composed of minimum five (5) members and maximum nine (9) members appointed by the ordinary GSM for a maximum three-year (3) term, from among the candidates nominated by the shareholders or by the SB in office, with the possibility of being reelected for subsequent three-year (3) 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.

11. Statement regarding corporate governance (continued)

The members of the Supervisory Board, during the year were:

01.01.2018 – 16.10.2018

- Manfred Wimmer – chairman
- Andreas Treichl – deputy-chairman
- Gernot Mittendorfer – member
- Brian O'Neill - member
- Tudor Ciurezu – member
- Hildegard Gacek – member
- Wilhelm Koch – member (until 31.01.2018)

17.10.2018 – 31.12.2018

- Manfred Wimmer – chairman
- Andreas Treichl – deputy-chairman
- Gernot Mittendorfer – member
- Brian O'Neill - member
- Tudor Ciurezu – member
- Hildegard Gacek – member
- Elisabeth Krainer Senger Weiss – 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 have the powers and authority established by the Supervisory Board as provided in the respective committees' internal rules.

Until December 14th 2018, the Supervisory Board had the following subordinated committees:

- Audit and Compliance Committee
- Risk Management Committee
- Remuneration Committee
- Nomination Committee.

In order to ensure a clearer structure of each defense line on December 14th 2018, the Supervisory Board approved the shift of the responsibilities pertaining to Compliance area from the Audit and Compliance Committee to the Risk Management Committee, thus having a transparent separation of second versus third line of defense in the internal control system of BCR.

Following this change the committees of the Supervisory Board committees were the following:

11.3.1. Audit Committee

The Audit Committee is a consultancy body, which reviews, reports to, advises and assists the Supervisory Board in carrying out its tasks related to internal control and audit,.

The Audit Committee is made of three (3) members and one (1) replacement member, appointed from the Supervisory Board members.

The responsibilities, organization, the operation and the roles of the Audit Committee are established by the Audit Internal Rules.

11. Statement regarding corporate governance (*continued*)

11.3.2. Risk and Compliance Committee

The Risk and Compliance Committee is a consultancy body which reviews, reports to, advises and assists the Supervisory Board in carrying out tasks related to risk management function and compliance function.

The Risk and Compliance Committee is made of three (3) members and one (1) replacement member, appointed from the Supervisory Board members.

The responsibilities, organization, the operation and the roles of the Risk and Compliance Committee are established by the Risk and Compliance Committee Internal Rules.

11.3.3. 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 (3) member and one (1) replacement member, appointed from the Supervisory Board members. The responsibilities, the organization, the operation and the roles of the Remuneration Committee are established by the Remuneration Committee Internal Rules.

11.3.4. 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 (3) members and one (1) replacement member, appointed from of the Supervisory Board. The responsibilities, the organization, the operation and the roles of the Nomination Committee are established by the Nomination Committee Internal Rules.

The Report regarding the activity conducted in 2018 by the BCR Supervisory Board committees is presented separately to the GSM together with the reports related to the Year End 2018 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 (5) members appointed by the Supervisory Board, for mandates of maximum four-year (4) 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;

11. Statement regarding corporate governance (*continued*)

- 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 changes 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 31.12.2018 were as follows:

1. **Sergiu Cristian MANEA** – Executive President, Chairman of the Management Board - mandate valid until 28.02.2022;
2. **Elke MEIER** – Executive Vice-President coordinating the Financial functional line, Member of the Management Board, appointed by the Supervisory Board as of January 1st 2018 and took over her position starting with 18.05.2018, after receiving NBR approval - mandate valid until 31.12.2020;
3. **Frank Michael BEITZ** – Executive Vice-President, coordinator of the Risk functional line, Member of the Management Board, appointed by the Supervisory Board as of January 1st 2018 and took over his position starting with 15.03.2018 after receiving NBR approval - mandate valid until 31.12.2019;
4. **Dana Luciana DIMA** - Executive Vice-President coordinating the Retail and Private Banking functional line, Member of the Management Board - mandate valid until 31.10.2021;
5. **Ryszard Ferdynand DRUŹYŃSKI** - Executive Vice-President coordinating the Operations & IT functional line, Member of the Management Board - 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 2018 by the BCR Management Board is presented separately to the General Shareholders meeting together with the reports related to the Year End 2018 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 roles of ALCO are established by the MB subcommittees 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 three (3) members. The responsibilities, organization, working means and procedures of Credit Committee are established by the MB subcommittees Internal Rules.

11. Statement regarding corporate governance (*continued*)

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 roles of CIC Committee are established by the MB subcommittees 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 MB subcommittees 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 Group 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:

- 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.
- Second-level of control is the duty of Risk Management Function and Compliance Function.
- 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 for all ages
- Support and promote leaders and role models
- Civic leadership
- Young people empowerment and supporting youth projects
- Education for soft skills and practical competences

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. Launched two years ago, the program delivered training courses to 200,000 Romanians. In 2018, 110.000 people who took part in Money School financial literacy workshops understood how to better manage their money and they became aware of the factors that influence their financial behavior. The workshops took place in BCR branches (10.000 adult participants), at companies' headquarters (20.000 participants), in universities, high-schools and schools (40.000 participants), in FliP- Money School on Wheels (10.000 kids) and in kindergarten (30.000 de pre-school kids).

• 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. 10000 kids have participated to the workshops in 2018.

• 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.

12. Social responsibility, diversity & development activities (*continued*)

BCR joined Hai la Olimpiada program as sponsor in 2014. In this program we implemented 35 preparation for performance centers in mathematics, physics and informatics in 16 big cities – Alexandria, Bucuresti, Baia Mare, Barlad, Bistrita, Brasov, Buzau, Cluj, Constanta, Drobeta Turnu Severin, Hunedoara, Iasi, Oradea, Piatra Neamt, Suceava, Targoviste, Targu Mures, Timisoara si Vaslui. 4.471 kids who are passionate about these subjects are being prepared by 377 outstanding teachers.

Thus, contribute to continuing the tradition of school performance and create premises for raising the overall level of education. Thus, contribute to continuing the tradition of school performance and create premises for raising the overall level of education. 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. Donations on Bursa Binelui platform grow constantly, in 2018 the organization that have registered on the platforma have collected 194,390 euros (68.276 Euro donated between February and December 2018, outside the competition Campionatului de Bine and 126.114 Euro during Campionatul de Bine) and 12,878 donations (9247 donations during the competition Campionatul de Bine and 3.631 donations outside the competition Campionatul de Bine), and at present 580 de non-profit organizations have registered on the platform.

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: 74.65% women and 25.35% men
- Average age: 38. 81 years
- Level of studies: 85% employees with higher education and 15% employees with secondary education

Improvement and professional development

During 2018, there were 16,960 participations to various trainings and workshops organized according to the annual training plan of which 55% represents participation to technical training courses.

The total average number of training days was 5.64 days per employee of which in class 3.97 days/ employee and 1.67 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.

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.

12. Social responsibility, diversity & development activities (*continued*)

In 2018, BCR continued the process of changing the organizational culture and for this purpose a series of events and workshops were organized, defining the new pillars that would form the basis of a healthy and sustainable organizational culture.

2018 was the apogee 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. In total, there were over 200 000 trainees in this program. Since January 2017 to July 2018, 100 000 Romanians were trained (30 000 adults in BCR units, 40 000 children and students and 30 000 in kindergartens). Between August – November 2018, we trained over 100 000 participants (10 000 adults in BCR units, 15 000 adults in companies, 35 000 teenagers and students, 10 000 children in FLIP, 30 000 in kindergartens).

2018 was also the year when we entered the Book of Records with "The biggest financial education lesson in the world". On International Saving Day (October 31st), 13.230 students in 59 locations have simultaneously participated in a financial education course.

The financial education will continue in 2019.

Supervisory Board Chairman,

Manfred Wimmer

CONSILIUL DE SUPRAVEGHERE
BCR
PRESEDINTE