RAIFFEISEN BANK SA

CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

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

31 DECEMBER 2018

Content

In accordance with article 10, paragraph 1 from republished accounting Law No. 82/1991, the responsibility for the accounting organization and management belongs to the administrator, to the person authorized for credit release or to other person in charge with administration of the entity.

Officially in charge as president of Raiffeisen Bank S.A. - parent company, in accordance with article 31 from republished accounting Law No. 82/1991, I assume the responsibility for preparing the consolidated and separate financial statements as of 31 December 2018 and I confirm that:

a) accounting policies used for preparing the consolidated and separate financial statements as of 31 December 2018 are in accordance with Order of the National Bank of Romania No. 27/2010 and related amendments, which require that these consolidated and separate financial statements to be prepared in accordance with International Financial Reporting Standards as endorsed by the European Union;

b) consolidated and separate financial statements prepared as of 31 December 2018 fairly reflect the financial position, statement of comprehensive income, statement of changes in equity, statement of cash flow and the related notes for the activity developed in accordance with Order of the National Bank of Romania No. 27/2010 and related amendments, which require that these consolidated and separate financial statements to be prepared in accordance with International Financial Reporting Standards as endorsed by the European Union.

Steven van Groningen

President

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Raiffeisen Bank S.A.

Report on the Audit of the Consolidated and Separate Financial Statements

Opinion

We have audited the consolidated and separate financial statements of Raiffeisen Bank S.A. (the Bank) with official head office in 246C Calea Floreasca Bd, Bucharest, Romania, identified by sole fiscal registration number RO 361820, which comprise the consolidated and separate statement of financial position as at December 31, 2018, the consolidated and separate income statement, the consolidated and separate statement of comprehensive income, the consolidated and separate statement of changes in equity and the consolidated and separate statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of the Bank as at December 31, 2018, and of its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with the National Bank of Romania Order no 27/2010, approving the accounting regulations compliant with the International Financial Reporting Standards for credit institutions, with subsequent modifications and clarifications.

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 of 16 April 2014 ("Regulation (EU) No. 537/2014") and Law 162/2017 („Law 162/2017"). 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 are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to the audit of the financial statements in Romania, including Regulation (EU) No. 537/2014 and Law 162/2017 and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the "Auditor's responsibilities for the audit of the financial statements" section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated and separate financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated and separate financial statements.

Key audit matter

Impairment of loans and advances to customers

Management's assessment of impairment indications and determination of the loss allowance for loans and advances to customers based on the Expected Credit Loss model is a complex process and involves judgement and use of estimates. Such an assessment is inherently uncertain, involving forecasting of future macroeconomic conditions in a number of scenarios as well as an assessment of the credit standing of the exposures by employing models based on a series of historical data and assumptions and an assessment of valuation and timing of recovery of collaterals.

Special considerations are given to aspects that are new or experienced notable developments in 2018, like the adoption of IFRS 9 Financial Instruments, effective for annual reporting periods beginning on or after 1 January 2018, and effects of local Government Ordinance 114 /2018 regarding the establishment of measures in the field of public investments and fiscal-budgetary measures, the modification and completion of some normative acts and the extension of some deadlines („OUG 114/2018") which may have an impact on the evolution of GDP and other macroeconomic factors.
The effect of the adoption of the IFRS 9 is disclosed in Note 4 to the consolidated and separate financial statements.

The use of different modelling techniques and assumptions around the calculation of the expected credit losses could produce significantly different estimates of loss allowance. These models require the significant judgment of management regarding appropriate segmentation, the identification of significant changes in credit risk, the inclusion of forward-looking elements as well as the application of management overlays to reflect on circumstances beyond the modelling capabilities.
Notes 3j, 5 and 21 to the consolidated and separate financial statements present more information on the estimation of loss allowance for loans and advances to customers.

Given the complexity of the requirements of IFRS 9, judgment used in estimating the individual and collective loss allowance and significance of loans and advances to customers (representing 64.1% of total consolidated assets and 63.4% of total separate Bank's assets), this is considered to be a key audit matter.

How our audit addressed the key audit matter

Our audit procedures included, among others, the assessment of the Bank's methodology regarding the identification of impairment indications and determination by the management of the expected credit losses, including governance over the determination of key judgements. This included the determination of probability weighted macroeconomic scenarios, staging criteria and the credit risk parameters models. We assessed the design and evaluated the operating effectiveness of internal controls over the monitoring of loans and advances to customers and over loss allowance calculations including the quality of underlying data and relevant systems.

For the loss allowance of impaired loans assessed on an individual basis (stage 3), our evaluation was focused on the loans with the most significant potential impact on the consolidated and separate financial statements and considered the key assumptions underlying the impairment identification and quantification such as estimated future cash flows, including the realizable value of collaterals and estimates of recovery on default. We compared with the available market information based on our own experience on the matter. Our internal valuation specialists were involved, as appropriate, in performing our audit procedures.

For expected credit losses for loans assessed in stage 1 or stage 2 we tested key models developed by management with the assistance of our internal credit risk specialists.

We have analyzed the Bank's assessment of the direct impact of OUG 114/2018 on the telecom and energy sectors and reviewed the estimation of the expected credit losses given the changes in GDP and unemployment that may be triggered by OUG114/2018.

We further assessed the adequacy of the Bank's disclosures in the consolidated and separate financial statements regarding exposure to credit risk.

Key audit matter

Provisions for litigations and other risks

The process for determining the provisions is an estimation process involving a high level of judgement, therefore there is an inherent risk that the existing provisions at year-end may significantly differ from the actual outflow of economic resources in subsequent years. The main aspects for which the management exercised judgment are the disputes and litigations related to consumer protection, other disagreements with clients and tax authorities audit; Notes 37 and 41 (iii) to the consolidated and separate financial statements present more information on their estimations. Given the inherent uncertainties with respect to the final outcome of pending and potential disputes and litigations related to tax matters, consumer protection issues and other disagreements with clients the management applies judgement in predicting the final outcome and uses estimates in relation to determination of the provisions.

Provisions for litigation and other risks are significant to our audit because the assessment process is complex and judgmental and the amounts involved are significant.

How our audit addressed the key audit matter

Our audit procedures were focused on the judgments and estimates which could give rise to material misstatement or are potentially subject to management bias:

- We assessed the adequacy of internal controls system related to the process of determining the provision;
- We conducted discussions with management and Bank's legal department to understand the status of each significant litigation and dispute and the assessment on the exposure at risk;
- We assessed the principles and assumptions used by the Bank to estimate the amount of provisions;
- We examined the fact pattern for the current disputes and litigations have assessed the adequacy of the provisions based on the Bank's assumptions;

- Our tax experts were involved, where applicable, in the analysis and corroboration of the information and assumptions used in determining the provisions and contingent liabilities by considering the relevant legal requirements;
- We obtained written confirmations from the external legal counsels and compared their opinions with management's assumptions and assessment regarding the impact in the financial statements;
- We also evaluated the adequacy of the Bank's disclosures in the consolidated and separate financial statements regarding provisions for risks and litigations.

Key audit matter

Information Technology (IT) systems relevant for financial reporting

A significant part of the Bank's operations and financial reporting process is reliant on IT systems involving automated processes and controls over the capture, storage and processing of information. An important component of this internal control system involves the existence of and adherence to appropriate user access and change management processes and controls. These controls are particularly important because they ensure that the access and changes to IT systems and data are made by authorized persons in an appropriate manner.

The IT environment of the Bank is complex with a significant number of interconnected systems and databases. Due to the high automation of the processes relevant for financial reporting and due to the complexity of the IT environment of the Bank, a high proportion of the overall audit procedures was concentrated in this area. We therefore consider that this area represents a key audit matter.

How our audit addressed the key audit matter

We focused our audit procedures on those IT systems and controls that are significant for the financial reporting process. As the audit procedures over the IT systems require specific expertise, we involved our IT specialists in performing the audit procedures.

Our audit included, among others, the following procedures:

- Understanding and assessing the overall IT control environment and the controls in place, including the ones over access to systems and data, as well as IT system changes. We tailored our audit approach based on the importance of the system for the financial reporting and the existence of automated procedures supported by the respective system;
- We tested the operating effectiveness of controls over granting access rights to determine if only appropriate users had the ability to create, modify or delete user accounts for the relevant applications;
- We tested the operating effectiveness of controls around the development and changes of applications to determine whether these are appropriately authorized, tested and implemented;
- We assessed and tested the design and operating effectiveness of the application and IT-dependent controls in the processes relevant to our audit.

Other information

The other information comprises the Directors' Report which includes the Non Financial declaration and the Annual Report, but does not include the consolidated and separate financial statements and our auditors' report thereon. We obtained the Directors' Report prior to the date of our auditor's report, and we expect to obtain the Annual Report after the date of our auditor's report. Management is responsible for the other information.

Our audit opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with the National Bank of Romania Order no 27/2010, approving the accounting regulations compliant with the International Financial Reporting Standards for credit institutions, with all subsequent modifications and clarifications, and for such internal control as management determines is necessary to enable the preparation of the consolidated and separate 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 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 Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing 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 consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 consolidated and separate financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated and separate 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 Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated and separate 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 auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate 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.

Report on Other Legal and Regulatory Requirements

Reporting on Information Other than the Financial Statements and Our Auditors' Report Thereon

In addition to our reporting responsibilities according to ISAs described in section "Other information", with respect to the Directors' Report, we have read the Directors' Report and report that:

a) in the Directors' Report we have not identified information which is not consistent, in all material respects, with the information presented in the accompanying consolidated and separate financial statements as at December 31, 2018;

b) the Directors' Report identified above includes, in all material respects, the required information according to the provisions of the National Bank of Romania Order no 27/2010, approving the accounting regulations compliant with the International Financial Reporting Standards for credit institutions, with all subsequent modifications and clarifications, Annex 1 points 11-14 and 37-38 respectively;

c) based on our knowledge and understanding concerning the entity and its environment gained during our audit of the consolidated and separate financial statements as at December 31, 2018, we have not identified information included in the Directors' Report that contains a material misstatement of fact.

Other requirements on content of auditor's report in compliance with Regulation (EU) No. 537/2014 of the European Parliament and of the Council

Appointment and Approval of Auditor

We were appointed as auditors of the Bank by the General Meeting of Shareholders on May 2nd 2018 to audit the consolidated and separate financial statements for 3 years covering the financial periods end December 31st, 2018 till December 31st 2020. Total uninterrupted engagement period, including previous renewals (extension of the period for which we were originally appointed) and reappointments for the statutory auditor, has lasted for 7 years, covering the financial periods end December 31st, 2012 till December 31st, 2018.

Consistency with Additional Report to the Audit Committee

Our audit opinion on the consolidated and separate financial statements expressed herein is consistent with the additional report to the Audit Committee of the Bank, which we issued on the same date as the issue date of this report.

Provision of Non-audit Services

No prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council were provided by us to the Bank and we remain independent from the Bank in conducting the audit.
In addition to statutory audit services and services disclosed in the consolidated and separate financial statements, no other services were provided by us to the Bank, and its controlled undertakings.

On behalf of,

Ernst & Young Assurance Services SRL
15-17, Ion Mihalache Blvd., floor 21, Bucharest, Romania
Registered in the electronic Public Register under No. 77

EY
Ernst & Young Assurance Services S.R.L.
22. MAR. 2019
Signed for identification

Name of the Auditor/ Partner: Gelu Gherghescu
Registered in the electronic Public Register under No. 1449
Bucharest, Romania

22 March 2019

English translation only for information purposes. The translation of the report should be read with the financial statements, as a whole. In all matters of interpretations of information, views or opinions, the original Romanian language version of our report takes precedence over this translation.

RAIFFEISEN BANK SA
Consolidated and separate statement of comprehensive income for the year ended 31 December 2018

Raiffeisen BANK

In RON thousand	Note	Group 2018	Group 2017	Bank 2018	Bank 2017
Interest income		1,675,119	1,296,747	1,632,586	1,264,633
Interest expenses		(141,857)	(118,699)	(132,613)	(112,700)
Net interest income	8	**1,533,262**	**1,178,048**	**1,499,973**	**1,151,933**
Fees and commissions income		839,743	759,989	817,665	741,546
Fees and commissions expense		(200,612)	(173,672)	(201,174)	(173,256)
Net fee and commission income	9	**639,131**	**586,317**	**616,491**	**568,290**
Net trading income	10	358,043	311,268	357,988	310,781
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	27	38,811	-	38,481	-
Net gains/(losses) on derecognition of financial assets measured at fair value through other comprehensive income		480	-	480	-
Net income from financial instruments carried at fair value	22	-	5,921	-	6,128
Gains or (-) losses from hedge accounting, net		145	-	145	-
Other operating income	11	26,529	44,946	31,873	48,563
Operating income		**2,596,401**	**2,126,500**	**2,545,431**	**2,085,695**
Operating expenses	12	(754,116)	(727,744)	(742,654)	(719,294)
Personnel expenses	13	(599,863)	(555,806)	(577,172)	(538,364)
Net provisioning for impairment losses on financial assets	14	(176,124)	(245,623)	(174,546)	(244,277)
Negative goodwill		-	5,245	-	-
Share of gain from associates and joint ventures	26	1,027	1,485	-	-
Profit before income tax		**1,067,325**	**604,057**	**1,051,059**	**583,760**
Income tax expense	15,16	(173,536)	(95,138)	(169,972)	(92,583)
Net profit for the year		**893,789**	**508,919**	**881,087**	**491,177**
Items that may be reclassified subsequently to profit or loss		**20,254**	**(7,929)**	**22,127**	**(5,889)**
Net gains (losses) on financial assets available-for-sale		-	(14,504)	-	(14,003)
Net gains (losses) on financial assets at fair value through other comprehensive income		21,319	-	21,121	-
Related tax for above positions		(3,408)	2,321	(3,377)	2,241
Items that may not be reclassified subsequently to profit or loss		**547**	-	**547**	-
Fair value changes of the equity instruments at fair value through other comprehensive income		7,872	-	7,872	-
Related tax for above positions		(683)	-	(683)	-
Total comprehensive income for the year, net of income tax		**918,889**	**496,736**	**906,020**	**479,415**

The consolidated and separate statement of comprehensive income are to be read in conjunction with the notes to and forming part of the consolidated and separate financial statements set out on pages 6 to 153.

The consolidated and separate financial statements were approved by the Management Board on 22 March 2019 and were signed on its behalf by:

Steven van Groningen
President

Mihail Ion
Vice-president & Chief Financial Officer

TRANSLATOR'S EXPLANATORY NOTE: The above translation of the consolidated and separate financial statements is provided as a free translation from Romanian which is the official and binding version.

Raiffeisen BANK

In RON thousand	Note	Group 31 December 2018	Group 31 December 2017	Bank 31 December 2018	Bank 31 December 2017
Assets					
Cash and cash with Central Bank	17	7,197,230	8,471,977	7,197,222	8,471,851
Loans and advances to banks at amortised cost	20	437,854	89,168	435,126	85,641
Derivative assets held for risk management	19	8,620	35,237	8,620	35,237
Trading assets	18	299,045	86,298	298,926	86,775
Financial assets mandatorily at fair value through profit or loss	27	380,228	-	368,508	-
Investment securities	22	-	5,249,814	-	5,210,494
Investment securities at fair value through other comprehensive income	23	3,204,307	-	3,204,307	-
Equity instruments at fair value through other comprehensive income	24	48,023	-	48,023	-
Investment in subsidiaries, associates and joint ventures	26	24,980	23,911	105,349	105,379
Loans and advances to customers at amortised cost	21	26,144,360	22,161,274	25,389,969	21,422,932
Fair value changes of the hedged items-hedge accounting	28	1,124	-	1,124	-
Investment securities at amortised cost	25	2,333,367	-	2,308,071	-
Current tax receivable		-	541	-	-
Other assets	29	302,939	287,828	278,543	269,866
Deferred tax assets	30	28,071	17,167	26,444	17,050
Property and equipment	31	203,274	221,082	201,117	219,485
Intangible assets	32	181,115	162,118	178,461	159,997
Total assets		**40,794,537**	**36,806,415**	**40,049,810**	**36,084,707**
Liabilities					
Trading liabilities	18	18,322	29,291	18,322	29,603
Derivative liabilities held for risk management	19	7,478	50,844	7,478	50,245
Deposits from banks	33	536,070	508,289	536,070	508,289
Deposits from customers	34	33,051,203	29,695,999	33,093,573	29,736,748
Loans from banks and other financial institutions	35	809,898	931,958	108,274	240,600
Derivatives – hedge accounting	28	1,433	-	1,433	-
Current tax liabilities		84,677	21,582	84,048	21,544
Other liabilities	36	599,416	535,827	593,522	531,047
Debt securities issued	35	512,458	512,501	516,179	516,223
Subordinated liabilities	35	855,678	849,017	855,678	849,017
Provisions	37	133,681	80,464	131,308	78,037
Total liabilities		**36,610,314**	**33,215,772**	**35,945,885**	**32,561,353**
Equity					
Share capital and share premium	38	1,200,000	1,200,000	1,200,000	1,200,000
Retained earnings		2,721,294	2,156,444	2,641,251	2,089,243
Other reserves	39	262,929	234,199	262,674	234,111
Total equity		**4,184,223**	**3,590,643**	**4,103,925**	**3,523,354**
Total liabilities and equity		**40,794,537**	**36,806,415**	**40,049,810**	**36,084,707**

The consolidated and separate statement of financial position is to be read in conjunction with the notes to and forming part of the consolidated and separate financial statements set out on pages 6 to 153.
The consolidated and separate financial statements were approved by the Management Board on 22 March 2019 and were signed on its behalf by:

Steven van Groningen
President

Mihail Ion
Vice-president & Chief Financial Officer

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Group

In RON thousand	Share capital	Other reserves	Retained earnings	Total
Balance at 1 January 2017	**1,200,000**	**246,382**	**1,827,525**	**3,273,907**
Net profit for the year	-	-	508,919	508,919
Other comprehensive income, net of income tax	-	(12,183)	-	(12,183)
Total comprehensive income for the period, net of income tax	**-**	**(12,183)**	**508,919**	**496,736**
Distribution of dividends	-	-	(180,000)	(180,000)
Balance at 31 December 2017	**1,200,000**	**234,199**	**2,156,444**	**3,590,643**
Balance at 31 December 2017	**1,200,000**	**234,199**	**2,156,444**	**3,590,643**
Impact from adopting IFRS 9	**-**	**3,630**	**(76,939)**	**(73,309)**
Balance at 1 January 2018	**1,200,000**	**237,829**	**2,079,505**	**3,517,334**
Net profit for the year	-	-	893,789	893,789
Other comprehensive income, net of income tax	-	25,100	-	25,100
Total comprehensive income for the period, net of income tax	**-**	**25,100**	**893,789**	**918,889**
Distribution of dividends	-	-	(252,000)	(252,000)
Balance at 31 December 2018	**1,200,000**	**262,929**	**2,721,294**	**4,184,223**

Bank

In RON thousand	Share capital	Other reserves	Retained earnings	Total
Balance at 1 January 2017	**1,200,000**	**245,873**	**1,778,066**	**3,223,939**
Net profit for the year	-	-	491,177	491,177
Other comprehensive income, net of income tax	-	(11,762)	-	(11,762)
Total comprehensive income for the period, net of income tax	**-**	**(11,762)**	**491,177**	**479,415**
Distribution of dividends	-	-	(180,000)	(180,000)
Balance at 31 December 2017	**1,200,000**	**234,111**	**2,089,243**	**3,523,354**
Balance at 31 December 2017	**1,200,000**	**234,111**	**2,089,243**	**3,523,354**
Impact from adopting IFRS 9	-	3,630	(77,079)	(73,449)
Balance at 1 January 2018	**1,200,000**	**237,741**	**2,012,164**	**3,449,905**
Net profit for the year	-	-	881,087	881,087
Other comprehensive income, net of income tax	-	24,933	-	24,933
Total comprehensive income for the period, net of income tax	**-**	**24,933**	**881,087**	**906,020**
Distribution of dividends	-	-	(252,000)	(252,000)
Balance at 31 December 2018	**1,200,000**	**262,674**	**2,641,251**	**4,103,925**

The consolidated and separate statement of changes in shareholders' equity is to be read in conjunction with the notes to and forming part of the consolidated and separate financial statements set out on pages 6 to 153.

In RON thousand	Note	Group 2018	Group 2017	Bank 2018	Bank 2017
Cash flows from operating activities					
Net profit for the year		893,789	508,919	881,087	491,177
Adjustments for non-cash items:					
Depreciation and amortization	12	117,313	100,603	115,870	99,552
Net impairment loss on financial assets (release from recoveries is not included)	14	256,640	470,839	254,582	469,493
Impairment on available for sale instruments	11	-	(1,692)	-	-
Negative goodwill		-	(5,245)	-	-
Group share of gain from associates and joint ventures	26	(1,027)	(1,485)	-	-
Loss on the sale of property, plant and equipment and of intangible assets		21,475	12,052	21,310	10,611
Net charge of provisions for litigation and other provisions	11,12	10,258	(6,680)	10,451	(6,680)
Income tax expense	15,16	173,536	95,138	169,972	92,583
Fair value adjustments		(30,998)	12,613	(30,399)	12,073
Net gains FVTPL	27	(38,811)		(38,481)	
Net interest income	8	(1,533,262)	(1,178,048)	(1,499,973)	(1,151,933)
Unrealized foreign exchange losses		24,238	51,409	24,327	51,409
Income from dividends		(2,014)	(1,774)	(8,373)	(6,711)
Operating profit before changes in operating assets and liabilities		**(108,863)**	**56,649**	**(99,627)**	**61,574**
Change in operating assets:					
(Increase)/Decrease in trading assets and derivatives held for risk management		(212,747)	357,397	(212,151)	356,983
(Increase)/Decrease in loans and advances to banks at amortised cost		43,644	2,366	40,117	(16,149)
(Increase) in loans and advances to customers at amortised cost		(4,630,406)	(2,234,162)	(4,600,568)	(2,360,556)
(Increase) in investment securities		-	(1,387,170)	-	(1,384,872)
Decrease in investment securities at fair value through profit or loss		1,017,856	-	1,000,267	-
(Increase) in investment securities at fair value through other comprehensive income		(256,797)	-	(257,228)	-
(Increase) in investment securities at amortised cost		(1,014,854)	-	(1,011,026)	-
(Increase) in other assets		(38,001)	(88,901)	(28,428)	(69,722)
Proceeds from sale of loans		82,035	225,218	81,555	225,216
Change in operating liabilities					
(Decrease) in trading liabilities		(10,969)	(30,833)	(11,281)	(30,521)
Increase/(Decrease) in deposits from banks		27,386	(77,646)	27,386	(77,646)
Increase in deposits from customers		3,276,360	3,222,283	3,277,981	3,269,303
Increase in other liabilities		62,740	73,039	61,487	73,060
Taxation paid		(126,293)	(77,031)	(122,351)	(75,596)
Interest paid		(140,022)	(105,656)	(149,259)	(102,231)
Interest received		1,635,366	1,307,135	1,611,312	1,275,021
Cash flows from operating activities		**(393,565)**	**1,242,688**	**(391,814)**	**1,143,864**
Investing activities					
Proceeds from sale of property, plant and equipment		22,962	10,128	19,823	8,687
Acquisition of property, plant and equipment	31	(58,133)	(55,570)	(56,740)	(53,821)
Acquisition of intangible assets	32	(81,844)	(81,788)	(80,536)	(80,909)
Acquisition of investment in subsidiaries	26	-	(42,724)	-	(42,724)
Proceeds from sale of investment securities		-	153	-	153
Dividends received		2,014	1,774	8,403	6,711
Cash flows used in investing activities		**(115,001)**	**(168,027)**	**(109,050)**	**(161,903)**

In RON thousand	Note	Group 2018	Group 2017	Bank 2018	Bank 2017
Financing activities					
Cash from loans from banks		116,598	(92,578)	116,598	-
Repayments of loans from banks		(122,083)	(902,307)	(132,395)	(902,307)
Repayments of subordinated liabilities		(116,598)	(116,493)	(116,598)	(116,493)
Dividends paid		(252,000)	(180,000)	(252,000)	(180,000)
Cash flow from financing activities		**(374,083)**	**(1,291,378)**	**(384,395)**	**(1,198,800)**
Net (Decrease) in cash and cash equivalents		(882,649)	(216,717)	(885,259)	(216,839)
Cash and cash equivalents at 1 January		**8,516,544**	**8,733,261**	**8,516,418**	**8,733,257**
Cash and cash equivalents at 31 December		**7,633,895**	**8,516,544**	**7,631,159**	**8,516,418**

Analysis of cash and cash equivalents

In RON thousand	Note	Group 2018	Group 2017	Bank 2018	Bank 2017
Cash and cash equivalents comprise:					
Cash on hand	17	4,235,697	4,516,070	4,235,689	4,515,944
Cash with Central Bank	17	2,961,533	3,955,907	2,961,533	3,955,907
		7,197,230	**8,471,977**	**7,197,222**	**8,471,851**
Loans and advances to banks – less than 3 months		436,665	44,567	433,937	44,567
Cash and cash equivalents in the cash flow statement		**7,633,895**	**8,516,544**	**7,631,159**	**8,516,418**

The consolidated and separate statement of cash flows is to be read in conjunction with the notes to and forming part of the consolidated and separate financial statements set out on pages 6 to 153.

1. REPORTING ENTITY

Raiffeisen Bank SA (the "Bank") started its operations on 1 July 2002 upon the merger by acquisition of Raiffeisen Bank Romania SA by Banca Agricola Raiffeisen SA through issue of shares. The merger between the two banks was finalized on 30 June 2002 with the purpose of streamlining the operations of the Raiffeisen Group in Romania.

The Bank is licensed by the National Bank of Romania to conduct banking activities. The current registered office is located at Sky Tower Building, Calea Floreasca, no 246 C, district 1, Bucharest, Romania.

The consolidated and separate financial statements of the Bank for the year ended 31 December 2018 comprise the Bank and its subsidiaries (together referred to as the "Group").

The Group is primarily involved in corporate and retail banking, investment and activities services, leasing and asset management services.

The main activity of the Bank is to provide day-to-day banking services to corporate and individual clients. These include: accounts opening, domestic and international payments, foreign exchange transactions, working capital finance, medium term facilities, bank guarantees and letters of credit. The Group also provides financial leasing services, loan services in locative system and asset management services. The Group operates through the Head Office located in Bucharest and through its network of 419 branches as at 31.12.2018 (2017: 451 branches).

The Bank is managed in accordance with the dual management system by a Supervisory Board made up of 9 members and a Management Board made up of 7 members.

The members of the Supervisory Board as of December 31, 2018 are as follows:

- Johann Strobl – Chairman
- Martin Grüll – Deputy Chairman
- Andreas Gschwenter – Member
- Hannes Mösenbacher – Member
- Peter Lennkh – Member
- Anca Ileana Ioan – Independent Member
- Ana Maria Mihaescu – Independent Member
- Lukasz Janusz Januszewski – Member*
- Andrii Stepanenko – Member*

*approved by National Bank of Romania in January 2019

The structure of the Management Board as of December 31, 2018 is as follows:

- Steven van Groningen – President;
- Cristian Sporiş – Vice-president, coordinating the Corporate Division;
- James D. Stewart. Jr. – Vice-president, coordinating the Treasury and Capital Markets Division;
- Bogdan Popa – Vice-president, coordinating the Operations and IT Division;
- Vladimir Kalinov – Vice-president, coordinating the Retail Division;
- Mircea Busuioceanu – Vice-president, coordinating the Risk Division;
- Mihail Ion – Vice-president, coordinating the Accounting and Financial Controlling Division.

2. BASIS OF PREPARATION

a) Statement of compliance

The consolidated and separate financial statements have been prepared in accordance with Order no. 27/2010 of the National Bank of Romania and subsequent amendments, which require that these consolidated and separate financial statements are prepared in accordance with International Financial Reporting Standards as endorsed by the European Union ("IFRS"). The accounting records of the Bank are maintained in RON in accordance with the Romanian accounting law and the National Bank of Romania banking regulations.

Starting with 2012, the National Bank of Romania issued regulations through which the International Financial Reporting Standards as adopted by the European Union ("IFRS") become basis of accounting for banks. As such the statutory accounts of the Bank and of Raiffeisen Banca pentru Locuinte are in line, in all material respects, with these standards.

The non – banking subsidiaries, associates and joint ventures prepare financial statements in accordance with the Romanian accounting law and the National Bank of Romania banking regulations ("statutory accounts") except for ICS Raiffeisen Leasing S.R.L which prepares financial statements in accordance with the Moldavian accounting law.

These accounts have been restated to reflect the existing differences between the statutory accounts and IFRS. Accordingly, such adjustments have been made to the statutory accounts as have been considered necessary to bring the financial statements into line, in all material respects, with IFRS.

b) Basis of measurement

In these financial statements, the Bank has applied IFRS 9 and IFRS 7 (amended with changes brought by IFRS 9 "Financial Instruments"), effective for annual periods beginning on or after 1 January 2018, for the first time. The Bank has not adopted early any other standard, interpretation or amendment that has been issued but is not yet effective.

IFRS 9 replaces IAS 39 for annual periods on or after 1 January 2018.

The Bank has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings as of 1 January 2018 and are disclosed in Note 4.

The main changes brought by IFRS 9 "Classification and measurements" are summarised below:

Changes to classification and measurement

To determine their classification and measurement category, IFRS 9 requires all financial assets to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

The new categories of financial assets are:

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

2. BASIS OF PREPARATION (continued)

The accounting for financial liabilities remains largely the same as it was under IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVPL. Such movements are presented in OCI with no subsequent reclassification to the income statement.

Under IFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on the business model and their contractual terms. The accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not changed.

Changes to the impairment calculation

The adoption of IFRS 9 has fundamentally changed the Bank's accounting for loan loss impairments by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Bank to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset.

Impact from adoption of IFRS 9 is presented in Note 4.

c) Functional and presentation currency

The elements included in the financial statements of each Group entity are evaluated by using the currency of the primary economic environment in which the entity operates ("functional currency"). These consolidated and separate financial statements are presented in Romanian Lei ("RON"), which is the functional and presentation currency of the Bank, rounded to the nearest thousand.

d) Use of estimates and judgments

The preparation of consolidated and separate financial statements in accordance with IFRS as endorsed by the EU requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on the historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions of accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. The management judgments in applying accounting policies which have a significant impact on the consolidated and separate financial statements as well as highly uncertain estimates are disclosed in Note 6.

3. SIGNIFICANT ACCOUNTING POLICIES

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

a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Bank. Control exists when an entity has the power to govern, directly or indirectly, the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The Bank holds:

- 99.99% (2017: 99.99%) interest in Raiffeisen Leasing IFN S.A.;
- 99.99% (2017: 99.99%) interest in ICS Raiffeisen Leasing S.R.L. from the Republic of Moldova, a company held 100% by Raiffeisen Leasing IFN S.A.;
- 99.99% (2017: 99.99%) investment in Raiffeisen Asset Management S.A., an asset management company with the purpose of administrating fund.

During 2018, Raiffeisen Services S.R.L., a fully owned subsidiary of the Bank, providing financial services (except for services rendered on the capital markets), has ceased its activity and has been liquidated.

The Bank has consolidated the financial statements of its subsidiaries in accordance with IFRS 10 “Consolidated Financial Statements”.

In respect of its separate financial statements, the Bank has changed its accounting policy starting with January 1, 2018 and accounts its subsidiaries at cost, in accordance with IAS 27 “Separate financial Statements” paragraph 10a).

Before January 1, 2018, the Bank applied paragraph 10b) from IAS 27, according to which subsidiaries were accounted for in accordance with IAS 39 “Financial Instruments: Recognition and Measurement”. However fair value involves a high degree of judgment as the subsidiaries are not quoted on an active market while such entities are consolidated in the consolidated financial statements. Policy of cost in separate financial statements is widely applied by banks in the peer group. Furthermore the subsidiaries under discussion have important transactions with the Bank in respect of distribution of their products and their valuation would be different if these transactions would not take place. As a result, the choice between cost method and fair value should be of limited importance as the investors are more interested in the consolidated financial statements.

As a result, this change does not have a quantitative impact on the financial statements.

(ii) Joint venture

The Group holds 33.32% (2017: 33.32%) in Raiffeisen Banca pentru Locuinte S.A. which is an entity exclusively dedicated to saving and lending business.

The Group has consolidated the financial statements of its joint venture using the equity method, in accordance to IAS 28 “Investments in Associates and Joint Ventures”.

In respect of its separate financial statements, the Bank has changed its accounting policy starting with January 1, 2018 and accounts its joint venture at cost, in accordance with IAS 27 “Separate financial Statements” paragraph 10a).

Before January 1, 2018, the Bank applied paragraph 10b) from IAS 27, according to which joint ventures were accounted for in accordance with IAS 39 “Financial Instruments: Recognition and Measurement”. Still, the evaluation was performed under the cost method as the joint ventures do not have a quoted market price in an active market and their fair value cannot be reliably measured.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

As a result, this change does not have a quantitative impact on the financial statements.

(iii) Associates

The Bank holds an investment of 33.33% (2017: 33.33%) in Fondul de Garantare a Creditului Rural – IFN S.A. Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies.

The Group accounts proportionately for the share of gain or loss from its associates in accordance to IFRS 11 “Investments in Associates”. The consolidated financial statements include the Group’s share of the total recognized gains and losses of associates and joint ventures on an equity accounting basis, from the date that significant influence commences until the date that significant influence ceases (see Note 26). When the Group’s share of losses exceeds its interest in an associate, the Group’s carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate. After application of the equity method, including recognizing the associate's losses, the investor determines whether it is necessary to recognize any additional impairment loss with respect to the investor's net investment in the associate.

In respect of its separate financial statements, the Bank has changed its accounting policy starting with January 1, 2018 and accounts its associate at cost, in accordance with IAS 27 “Separate financial Statements” paragraph 10a).

Before January 1, 2018, the Bank applied paragraph 10b) from IAS 27, according to which associates were accounted for in accordance with IAS 39 “Financial Instruments: Recognition and Measurement”. Still, the evaluation was performed under the cost method as the associates do not have a quoted market price in an active market and their fair value cannot be reliably measured.

As a result, this change does not have a quantitative impact on the financial statements.

(iv) Transactions eliminated on consolidation

Intra-Group balances and transactions, and any unrealized gains arising from intra-Group transactions (except for the gains or losses from foreign exchange differences related to these transactions), have been eliminated from the consolidated financial statements. Unrealized gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group’s interest in that entity. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

b) Foreign Currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to RON at the official exchange rates from the transaction date. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign exchange gain or loss on monetary items is the difference between the amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on settlement are recognized in profit or loss, except for differences arising from the equity instruments measured at fair value through other comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(ii) Foreign operations

A foreign operation is the one whose activities are based in a country other than that of the reporting entity or whose activities are denominated in the different currency than the one of the reporting entity.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to RON at exchange rates at the reporting date. The income and expenses of foreign operations are translated to RON at the exchange rates at the date of the transactions.

Foreign currency differences on the translation of foreign operations are recognized directly in equity. When a foreign operation is disposed of, in part or in full, the relevant amount of the foreign currency translation reserve is transferred to profit or loss.

c) Interest income and expense

Interest income and expense are recognized in the consolidated and separate statement of comprehensive income using the effective interest rate method for financial instruments measured at amortised cost, financial instruments designated at FVPL and financial assets measured at FVOCI.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets other than credit-impaired assets (POCI).

When a financial asset becomes credit-impaired and is, therefore, regarded as ‘Stage 3’, the Bank calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

For purchased or originated credit-impaired (POCI) financial assets, the Bank calculates interest income using the credit-adjusted EIR and applying that rate to the amortised cost of the asset. The credit-adjusted EIR is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost of the POCI assets.

The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. For the effective interest rate computation, the Group estimates the future cash flows by taking into account the contractual terms of each financial instrument, however it does not account for future credit losses. The calculation of the effective interest rate includes all fees and commissions paid or received, transaction costs and discounts or premiums that are an integral part of the effective interest rate.

The effective interest rate method is a method of calculating the amortized cost of loans and advances to customers whereby up-front and management fees received between parties to the contract and origination costs should be integral part of the effective interest rate and should be amortized and recognized as interest income over the relevant period.

Interest income and expense on all trading assets and liabilities are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

d) Fees and commissions

Fees and commissions income arises on financial services provided by the Group including commitment fees, card fees, cash management services, brokerage services, investment advice and financial planning, investment banking services, project and structured finance transactions, and asset management services.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Other fees and commissions income arising on the financial services provided by the Group including cash management services, brokerage services, investment advice, financial planning, investment banking services are recognized in the consolidated and separate statement of comprehensive income on the accrual basis i.e. when the corresponding service is provided. Other fees and commissions expense relates mainly to transaction and service fees, which are expensed as the services are received.

Other fees and commissions income and expenses corresponding to saving-lending products, which are not part of the effective interest rate of the financial instruments, are recognized when the related services are provided.

e) Net trading income

Net trading income comprises gains and losses from trading assets and liabilities and includes all realized and unrealized fair value changes, interests, dividends and foreign exchange differences.

f) Net gain/loss from other financial instruments at fair value

Net gain/loss from other financial instruments at fair value arises from derivatives held for risk management purposes and financial assets and liabilities designated at fair value through profit or loss and include all realized and unrealized fair value changes, interests, dividends and foreign exchange differences.

g) Dividends

Dividend income is recognized in the consolidated and separate statement of comprehensive income when the right to receive the income is established. Usually, this is the ex-dividend date for equity securities. Dividends are reflected as a component of other operating income based on the underlying classification of the equity instrument.

Tax on dividends is recognized at the same time as the payment of the related dividends and is due in the following month.

Dividends to be distributed by the Bank or Group are treated as an appropriation of profit in the period they are declared and approved by the General Shareholders Meeting.

h) Lease payments

Payments made under operating leases are recognized in the consolidated and separate statement of comprehensive income on a straight-line basis over the term of the lease. Lease incentives received are recognized in the consolidated and separate statement of comprehensive income as an integral part of the total lease expense. Operating lease expense is reflected as a component of operating expense.

Minimum lease payments made under financial leases are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic interest rate on the remaining balance of the liability.

i) Income tax

Income tax for the year comprises current and deferred tax. Income tax is recognized in profit or loss or equity except to the extent that it relates to items recognized directly in equity or in other comprehensive income. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred tax is determined using the balance sheet method for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognized for the goodwill from transactions that are not a business combination and that affects neither accounting nor taxable profit. Deferred tax is measured at the tax rates which are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

j) Financial instruments

(i) Classification

According to IFRS 9, classification of financial assets is based on the entity's business model (portfolio perspective) and the contractual cash flow characteristics of the individual financial asset.

The main classification categories for financial assets are:

a. amortized cost;
b. fair value through other comprehensive income (FVOCI) with gains or losses recycled to profit or loss on derecognition;
c. Equity instruments at FVOCI, with no recycling of gains or losses o profit or loss on derecognition and
d. fair value through profit or loss (FVTPL).

a. Amortised cost

A financial asset is measured at amortized cost if both of the following conditions are met:

- The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows;
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (herein after referred to as the "SPPI test").

b. FVOCI

A financial asset that is a debt instrument is classified as subsequently measured at FVOCI if it is held within a business model whose objective is both collecting contractual cash flows and selling financial assets and meets the SPPI test.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

c. FVTPL

All other financial assets – i.e. financial assets that do not meet the criteria for classification as subsequently measured at either amortised cost or FVOCI – are classified as subsequently measured at fair value, with changes in fair value recognised in profit or loss.

In addition the Bank has the option at initial recognition to irrevocably designate a financial asset that is a debt instrument as at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency – i.e. an 'accounting mismatch' – that would otherwise arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.

Further requirements for a 'significant reduction of the accounting mismatch' or a minimum value of reduction are not prescribed by IFRS 9. For practical purpose, the Bank does not need to originate all of the assets and liabilities giving rise to the measurement or recognition mismatch at exactly the same time. A reasonable delay is permitted, provided that each asset or liability is designated as at FVTPL at its initial recognition and, at that time, any remaining transactions are expected to occur.

d. FVOCI Election for Equity Instruments

At initial recognition, an entity may make an irrevocable election to present in OCI subsequent changes in the fair value of an investment in an equity instrument that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 Business Combinations applies.
An equity instrument is a contract that evidences a residual interest in an entity's asset after deducting all of its liabilities. The term "entity" includes individuals, partnerships, incorporated bodies, trusts and government agencies. According to IAS 32, an equity instrument has to meet the following conditions cumulatively):

- ✓ No contractual obligation to deliver cash or another financial asset to another entity or exchange financial assets or liabilities under unfavourable conditions with another entity and
- ✓ The instrument evidences a residual interest in the net assets of the issuer.

Equity instruments do not have contractual cash flows which are solely payments of interest and principal. Consequentially, equity instruments will never pass the SPPI test and are always classified as either FVTPL or FVOCI.

Equity instruments that are held for trading are required to be classified as at FVTPL. For all other equity investments (e.g.: strategic investments in clearing houses), management may irrevocably elect to present subsequent changes in the fair value of these equity investments in other comprehensive income (OCI). This election is made on an instrument-by instrument (i.e. share-by-share) basis.

Dividends on such investments are recognised in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Such circumstances will be limited because such investment will not be accounted for in accordance with IFRS 9 if the Bank has the ability to control or significantly influence the dividend policy of the investment.

Amounts presented in OCI shall not be recycled to profit or loss when an equity instrument is derecognised (e.g. due to a sale), nor are there any impairment requirements. However, the Bank may transfer the cumulative gain or loss within equity.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVPL when they are held for trading and derivative instruments or the fair value designation is applied.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

All financial liabilities are classified as subsequently measured at amortised cost, except for the following items which are measured at FVTPL:

- Financial liabilities that are held for trading – including derivatives;
- Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies (specific guidance carried forward from IAS 39);
- Financial guarantees and below market rate interest loan commitments (new specific guidance under IFRS 9 which is described below;
- Contingent consideration recognized by an acquirer in a business combination;
- Financial liabilities that are designated as at FVTPL on initial recognition.

Financial guarantee contracts and commitments to provide a loan at a below-market interest rate have specific guidance under IFRS 9. They have to be measured at the higher of:

a. the amount of provision for expected credit losses under the normal IFRS 9 impairment model and
b. the amount initially recognized, less the cumulative amount of income recognized in accordance with the principles of IFRS 15.

(ii) Business model assessment

The term ‘business model’ refers to the way an entity manages its financial assets in order to generate cash flows. That is, the entity’s business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets or both.

A business model assessment is needed for financial assets that meet the SPPI test, to determine whether they meet the criteria for classification as subsequently measured at amortised cost or FVOCI. Financial assets that do not meet the SPPI test are classified as at FVTPL irrespective of the business model in which they are held – except for investments in equity instruments, for which an entity may elect to present gains and losses in FVOCI.

The business model is determined at a level that reflects the way groups of financial assets are managed together to achieve a particular business objective. An entity’s business model does not depend on management’s intentions for an individual instrument. Accordingly, this condition is not an instrument- by-instrument approach to classification, but should be determined at a higher level of aggregation.

Three business models are allowed under IFRS 9:

a. Hold-to-collect

Financial assets in a hold-to-collect business model are managed to realise cash flows by collecting payments of principal and interest over the life of the instruments. An entity need not hold all of these assets until maturity. Therefore, a business model’s objective can be to hold financial assets to collect contractual cash flows even when some sales of financial assets have occurred or are expected to occur.

Sales that may be consistent with the hold-to-collect business model are performed in the following situations:

- The sales are due to an increase in the credit risk of a financial asset;
- The sales are infrequent (even if significant), or are insignificant individually and in aggregate (even if frequent);
- The sales take place close to the maturity of the financial asset and the proceeds from the sales approximate the collection of the remaining contractual cash flows.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The Group considers that the total sales per annum are insignificant if they do not exceed 10% of the prior three years average portfolio. The average considers closing balance figures; in case of new portfolios the Group applies the 10% threshold on periods less than 3 years.

The hold-to-collect portfolio is applicable to: *Loans and advances to customers, Loans and advances to banks and to a bond portfolio,* part of the liquidity buffer and whose main objective is to safeguard in stress times the continuity of the bank's activity.

b. Hold-to-collect and Sale

An entity may hold financial assets in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. In this type of business model, the entity's key management personnel have made a decision that both of these activities are integral to achieving the objective of the business model.

Examples of such a business model, given by IFRS 9, include:

- a financial institution holding financial assets to meet its everyday liquidity needs;
- an entity investing excess cash in short/long term instruments to hold but to sell when it has the need for capital expenditure;
- maintaining a particular interest yield profile.

Within the financial assets portfolio of the Bank, the "*Hold-to-collect and Sale***"** Business Model is applicable to *the bond portfolios,* managed for liquidity needs. The portfolios are composed of highly liquid assets and have the main objective meeting the liquidity needs and secondary to collect interest.

The target of these liquidity portfolios is to safeguard in stress times the continuity of the bank's activity, which sets the return objective in a secondary plan. The portfolios are managed based on a specific Investment Policy Statement (IPS) which imposes asset allocation restrictions based on certain criteria (central bank eligibility, credit risk, liquidity risk, concentration risk and market risk). The portfolio performance is monitored on a relative basis in risk-adjusted terms versus a benchmark.

c. Other

The objective of the business model is considered 'other' when it does not fall into one of the previous two categories discussed above. This would be the case where:

- a portfolio of financial assets is managed with the objective of realising cash flows through the sale of the financial assets in order to realise fair value changes arising from changes in credit spreads and yield curves. This results in active buying and selling and managing the instruments to realise fair value gains rather than to collect the contractual cash flows;
- a portfolio of financial assets that is managed and whose performance is evaluated on a fair value basis;
- a portfolio of financial assets meets the definition of held for trading;

The „Other" Business Model is applicable to the held for trading portfolio. Its strategy is to realize cash flows through sale of the assets or to manage the instruments actively on a fair value basis in order to realize fair value changes arising from changes in credit spreads and yield curves.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(iii) The SPPI test

As a second step of its classification process the Bank assesses the contractual terms of financial to identify whether they meet the SPPI test. For this purpose, the contractual interest is defined as consideration for:

- time value of money;
- credit risk associated with the principal amount outstanding;
- other basic lending risks (for example liquidity);
- costs (for example administrative) and
- profit margin.

Time value of money is the element of interest that provides consideration for only the passage of time. In some cases, the time value of money element may be modified (imperfect). In this case it must be assessed if the contractual cash flows still represent solely payments of principal and interest, i.e. the modification term does not significantly alter the cash flows from a “perfect” benchmark instrument. This assessment is not an accounting policy choice and cannot be avoided simply by concluding that an instrument, in the absence of such an assessment, will be measured at fair value.

Both qualitative and quantitative approaches can be used to determine whether the time value of money element of the interest rate provides consideration for just the passage of time.

When assessing a financial asset with a modified time value of money element, the entity should compare the financial asset under assessment to the “perfect” (“benchmark”) instrument (that is, the cash flows that would arise if the time value of money element was not modified).

If in any reasonably possible scenario, the difference between the cash flows of the benchmark instrument and the cash flows of the instrument under assessment are significantly different, its contractual cash flows are not considered SPPI and the instrument must be measured at FVTPL.

(iv) Financial assets and liabilities

Loans and advances to banks, loans and advances to customers, financial investments at amortised cost

From 1 January 2018, the Bank only measures loans to banks, loans and advances to customers and other financial investments at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows;
- 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivatives recorded at fair value through profit or loss

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract (i.e., the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts expected to have a similar response to changes in market factors.
- It is settled at a future date.

Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are included in net trading income unless hedge accounting is applied.

Embedded derivatives

An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract. A derivative that is attached to a financial instrument, but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.

Derivatives embedded in financial assets are not separated from the non-financial host contracts; instead, the entire hybrid instrument is assessed for classification, based on the business model and SPPI assessments. Derivatives embedded in financial liabilities are accounted for separately from the non-financial host contracts.

Financial assets or financial liabilities held for trading

The Bank classifies financial assets or financial liabilities as held for trading when they have been purchased or issued primarily for short-term profit making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit taking. Held-for-trading assets and liabilities are recorded and measured in the statement of financial position at fair value. Changes in fair value are recognised in net trading income. Interest and dividend income or expense is recorded in net trading income according to the terms of the contract, or when the right to payment has been established.

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

Debt instruments at FVOCI

The Bank applies the new category under IFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets;
- The contractual terms of the financial asset meet the SPPI test.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

These instruments largely comprise assets that had previously been classified as financial investments availablefor-sale under IAS 39.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost. Where the Bank holds more than one investment in the same security, they are deemed to be disposed of on a weighted average cost basis. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

Equity instruments at FVOCI

Upon initial recognition, the Group elected to classify irrevocably its equity investments, other than subsidiaries, joint ventures and associates as equity instruments at FVOCI with no recycling of gains or losses o profit or loss on derecognition.

Gains and losses on these equity instruments are never recycled to profit. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

Debt issued and other borrowed funds

After initial measurement, debt issued and other borrowed funds are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on issue funds, and costs that are an integral part of the EIR.

Financial assets and financial liabilities at fair value through profit or loss

Financial assets and financial liabilities in this category are those that are not held for trading and have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. Management only designates an instrument at FVPL upon initial recognition when one of the following criteria are met. Such designation is determined on an instrument-by-instrument basis:

- The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis;
- The liabilities (and assets until 1 January 2018 under IAS 39) are part of a group of financial liabilities (or financial assets, or both under IAS 39), which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy;
- The liabilities (and assets until 1 January 2018 under IAS 39) containing one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by the contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivative(s) is prohibited.

Financial assets and financial liabilities at FVPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in profit or loss with the exception of movements in fair value of liabilities designated at FVPL due to changes in the Bank's own credit risk. Such changes in fair value are recorded in the Own credit reserve through OCI and do not get recycled to the profit or loss. Interest earned or incurred on instruments designated at FVPL is accrued in interest income or interest expense, respectively, using the EIR, taking into account any discount/ premium and qualifying transaction costs being an integral part of instrument.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Interest earnt on assets mandatorily required to be measured at FVPL is recorded using effective interest rate. Dividend income from equity instruments measured at FVPL is recorded in profit or loss as other operating income when the right to the payment has been established.

Financial guarantees, letters of credit and undrawn loan commitments

The Bank issues financial guarantees, letters of credit and loan commitments. Financial guarantees are initially recognised in the financial statements (within *Provisions*) at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and an ECL provision.

The premium received is recognised in the income statement in *Net fees and commission income* on a straight line basis over the life of the guarantee.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded on in the statement of financial position.

(v) Recognition

The Group initially recognizes financial assets and liabilities at fair value, on initial recognition date. This is the date at which the Group becomes a party to the contractual provisions of the instrument.

Initial recognition date is important given that:

- benchmark test should be performed at the initial recognition;
- it is the date on which the classification assessment is performed (i.e.: the contractual characteristics at this date will trigger the classification and measurement of an exposure);
- the credit risk variation is measured from initial recognition. Therefore, the assessment whether there was an increase / significant deterioration in credit risk at each reporting date is performed compared to the conditions existing at initial recognition date;
- at the initial recognition the POCI assessment is performed – hence the Bank will recognise a POCI asset if the client is in default at the initial recognition date;
- at the initial recognition date the exposure needs to be recognised at fair value and the EIR or credit adjusted EIR is calculated.

The origination date is different from the initial recognition date when subsequent to origination, the contract can be significantly modified through either a commercial renegotiation or a restructuring operation.

(vi) Derecognition

Derecognition is the term used for the removal of an asset or liability from the balance sheet. Derecognition appears when:

- the rights to the cash flows from the asset expire,
- the rights to the cash flows from the asset and substantially all risks and rewards of ownership of the asset are transferred, or
- an obligation to transfer the cash flows from the asset is assumed and substantially all risks and rewards are transferred.

If the entity retains control of the asset but does not retain or transfer substantially all the risks and rewards, the asset is recognised to the extent of the entity's continuing involvement.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

A financial liability is removed from the balance sheet only when it is extinguished – i.e. when the obligation specified in the contract is discharged or cancelled, or expires. A transaction is accounted for as a collateralised borrowing if the transfer does not satisfy the conditions for derecognition.

When assessing whether or not to derecognise a loan to a customer due to a modification in terms and conditions, amongst others, the Group considers the following factors:

- Change in currency of the loan;
- Change in reimbursement schedule (e.g. extension of the remaining term of 50% and more than 2 years);
- Prolongation at contractual maturity / increase / decrease in an existing loan facility under market conditions;
- Introduction or elimination of a clause that would result in different classification.

In case the modification of terms and conditions does not result in derecognition, the Group records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

(vii) Offsetting

Financial assets and liabilities are set off and the net amount presented in the consolidated and separate statement of financial position when, and only when, the Group has a legal right to set off the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

(viii) Fair value measurement

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 in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects the effect of non-performance risk.

All estimates and judgments used in fair value measurement are described in Note 6. Unquoted equity instruments for which a reliable estimate of the fair value cannot be made are measured at cost and periodically tested for impairment.

(ix) Identification and measurement of impairment

The adoption of IFRS 9 has fundamentally changed the Bank's loan loss impairment method by replacing IAS 39's incurred loss approach with a forward-looking ECL approach. From 1 January 2018, the Bank has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under IFRS 9.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Bank groups its loans into Stage 1, Stage 2,Stage 3 and POCI, as described below:

- **Stage 1**: When loans are first recognised, the Bank recognises an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.

- **Stage 2**: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.

- **Stage 3**: Loans considered credit-impaired. The bank records an allowance for the LTECLs.

- **POCI**: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

Measurement of Expected Credit Losses

The measurement of expected credit losses 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.

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and fair value through other comprehensive income is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour. Significant judgements are required in applying the accounting requirements for measuring expected credit losses these are:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of expected credit losses;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated expected credit losses;
- Establishing groups of similar financial assets for the purposes of measuring expected credit losses.

Credit risk comes from the risk of suffering financial loss, should any of our customers, clients or market counterparties fail to fulfil their contractual obligations to the Group. Credit risk arises mainly from interbank, commercial and consumer loans and advances, and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, such as, financial guarantees, letters of credit, and acceptances.

The Group is also exposed to other credit risks arising from investments in debt securities and other exposures arising from its trading activities ('trading exposures') including non-equity trading portfolio assets and derivatives as well as settlement balances with market counterparties and reverse repurchase agreements.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

- PD The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.

Different models have been used to estimate the provisions of outstanding lending amounts and these can be grouped into the following categories:

- Sovereign, corporate customers, project finance, financial institutions, local and regional governments, insurance companies and collective investment undertakings: Stage 3 provisions are calculated by workout managers who discount expected cash flows by the appropriate effective interest rate.
- Retail mortgages: Stage 3 provision is generated for the majority of group units by calculating the statistically derived best estimate of expected loss which has been adjusted for indirect costs and for four group units by calculating the discounted collateral realization value.
- Other retail lending: Stage 3 provision is generated by calculating the statistically derived best estimate of expected loss which has been adjusted for indirect costs.

In the limited circumstances where some inputs are not fully available grouping, averaging and benchmarking of inputs is used for the calculation.

- EAD The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

Exposure at default is based on the amounts the Group expects to be owed at the time of default, over the next 12 months or over the remaining lifetime. The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type. For amortising products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12month or lifetime basis. Where relevant early repayment/refinance assumptions are also considered in the calculation.

For revolving products, the exposure at default is predicted by taking current drawn balance and adding a credit conversion factor which allows for the expected drawdown of the remaining limit by the time of default. The prudential regulatory margins are removed from the credit conversion factor. In the limited circumstances where some inputs are not fully available benchmarking of inputs is used for the calculation.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

- LGD The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

Different models have been used to estimate the loss given default of outstanding lending amounts and these can be grouped into the following categories:

- Sovereign the loss given default is found by using market implied sources.
- Corporate customers, project finance, financial institutions, local and regional governments, insurance companies the loss given default is generated by discounting cash flows collected during the workout process.
- Retail mortgages and other retail lending the loss given default is generated by stripping the downturn adjustments and other margins of conservatism from the regulatory loss given default.

In the limited circumstances where some inputs are not fully available alternative recovery models, benchmarking of inputs and expert judgement is used for the calculation.

When estimating the ECLs, the Bank considers multiple scenarios. Each of these is associated with different PDs, EADs and LGDs. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset.
With the exception of credit cards and other revolving facilities, the maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Bank has the legal right to call it earlier.

The mechanics of the ECL method are summarised below:

- Stage 1: The 12mECL represents the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Bank calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the multiple scenarios, as explained above.

- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.

- Stage 3: For loans considered credit-impaired, the Bank recognises the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.

- POCI assets are financial assets that are credit impaired on initial recognition. The Bank only recognises the cumulative changes in lifetime ECLs since initial recognition, based on a probability-weighting of the four scenarios, discounted by the creditadjusted EIR.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

- Loan commitments and letters of credit: When estimating LTECLs for undrawn loan commitments, the Bank estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability-weighting of the scenarios. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan. For credit cards and revolving facilities that include both a loan and an undrawn commitment, ECLs are calculated and presented together with the loan. For loan commitments and letters of credit, the ECL is recognised within *Provisions*.

- Financial guarantee contracts:The Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and the ECL provision. For this purpose, the Bank estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The calculation is made using a probability-weighting of the scenarios. The ECLs related to financial guarantee contracts are recognised within *Provisions*.

Debt instruments measured at fair value through OCI

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

Purchased or originated credit impaired financial assets (POCI)

For POCI financial assets, the Bank only recognises the cumulative changes in LTECL since initial recognition in the loss allowance.

Significant Increase in Credit Risk

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

- *Quantitative Criteria*

The Group uses quantitative criteria as the primary indicator of significant increase in credit risk for all material portfolios. For quantitative staging the Group compares the lifetime PD curve at measurement data with the forward lifetime PD curve at the date of initial recognition. For the estimation of the lifetime PD curve at the date of initial recognition assumptions are made about the structure of the PD curve. On the one hand in the case of highly rated financial instruments it is assumed that the PD curve will deteriorate over time. On the other hand for low rated financial instruments it is assumed that the PD curve will improve over time. The degree of improvement or deterioration will depend on the level of the initial rating. In order to make the two curves comparable the PDs are scaled down to annualized PDs. In general a significant increase in credit risk is considered to have occurred with a relative increase in the PD of up to 250% although this amount can be lower due to several limiting factors such as closeness to maturity and portfolios of products.

The Group is not aware of any generally accepted market practice for the level at which a financial instrument has to be transferred to Stage 2. From this perspective it is expected that the increase in PD at reporting date which is considered significant will develop over a period of time as a result of an iterative process between market participants and supervisors.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

- *Qualitative Criteria*

The Group uses qualitative criteria as a secondary indicator of significant increase in credit risk for all material portfolios. A movement to Stage 2 takes place when the criteria below are met.

For sovereign, bank, corporate and project finance portfolios, if the borrower meets one or more of the following criteria:

- External market indicators
- Changes in contract terms
- Changes to management approach
- Expert judgement

The assessment of significant increase in credit risk incorporates forward-looking information and is performed on a quarterly basis at a deal level for all non-retail portfolios held by the Group.

For retail portfolios, if the borrower meets one or more of the following criteria:

- Forbearance
- Expert judgement

The assessment of significant increase in credit risk incorporates forward-looking information and is performed on a monthly basis at a deal level for all retail portfolios held by the Group.

Backstop

A backstop is applied and the financial instrument considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments. At the same time, the Group adhered to the rebuttable presumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due.

Definition of Default and Credit-Impaired Assets

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

- *Quantitative Criteria*

The borrower is more than 90 days past due on its contractual payments and no attempt is made to rebut the presumption that financial assets which are more than 90 days past due are to be shown in Stage 3.

- *Qualitative Criteria*

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The criteria above have been applied to all financial instruments held by the Group and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD) and Loss given Default (LGD) throughout the Group's expected loss calculations.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of a minimum of 3 months or longer for distressed restructured exposures. This period of 3 months has been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different possible cure definitions.

Forward Looking Information

The assessment of significant increase in credit risk and the calculation of expected credit losses both incorporate forward-looking information. The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio.

These economic variables and their associated impact on the probability of default, loss given default and exposure at default vary by category type. Expert judgment has also been applied in this process. Forecasts of these economic variables (the "base economic scenario") are provided by Raiffeisen Research on a quarterly basis and provide the best estimate view of the economy over the next three years. After three years, to project the economic variables out for the full remaining lifetime of each instrument, a mean reversion approach has been used, which means that economic variables tend to either a long run average rate or a long run average growth rate until maturity. The impact of these economic variables on the probability of default, loss given default and exposure at default has been determined by performing statistical regression to understand the impact changes in these variables have had historically on default rates and on the components of loss given default and exposure at default.

In addition to the base economic scenario, Raiffeisen Research also provide a best case and worst case scenario along with scenario weightings to ensure non-linearities are captured. The Group has concluded that three scenarios or less appropriately captured non-linearity. The scenario weightings are determined by a combination of statistical analysis and expert credit judgement, taking account of the range of possible outcomes each chosen scenario is representative of. The probability-weighted expected credit losses are determined by running each scenario through the relevant expected credit loss model and multiplying it by the appropriate scenario weighting.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Group considers these forecasts to represent its best estimate of the possible outcomes and cover any potential non-linearities and asymmetries within the Group's different portfolios.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Sensitivity analysis

The most significant assumptions affecting the expected credit loss allowance are as follows:

- Corporate portfolios
    - Gross domestic product

- Retail portfolios
    - Gross domestic product
    - Exchange rate EUR/RON
    - ROBOR 3M
    - Unemployment rate.

Discount Factor

In general for on balance sheet exposure which is not leasing or POCI the discount rate used in the expected credit loss calculation is the effective interest rate or an approximation thereof.

Collateral valuation

To mitigate its credit risks on financial assets, the Bank seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The Bank's accounting policy for collateral assigned to it through its lending arrangements under IFRS 9 is the same is it was under IAS 39. Collateral, unless repossessed, is not recorded on the Bank's statement of financial position.

However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-assessed on an annual basis.

To the extent possible, the Bank uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, or based on housing price indices.

Write-offs

The Bank's accounting policy under IFRS 9 remains the same as it was under IAS 39. Financial assets are written off in their entirety only when the Bank has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

k) Hedge Accounting

The Group has elected, as a policy choice permitted under IFRS 9, to continue to apply hedge accounting in accordance with IAS 39.

The Group applies only the micro fair value hedge. The Group's hedging objective refers explicitly to the interest rate risk exposure due to shifts in the corresponding benchmark rate. The credit risk exposure of the assets is not considered for hedging purposes.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

At inception, the Group formally documents how the hedging relationship meets the hedge accounting criteria. It also records the economic relationship between the hedged item and the hedging instrument, including the nature of the risk, the risk management objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship at inception and on an ongoing basis. In order to qualify for hedge accounting, a hedge relationship must be expected to be highly effective on a prospective basis and it needs to be demonstrated that it was highly effective in the previous designated period (i.e., one month).
A hedge is considered to be highly effective if the changes in fair value or cash flows attributable to the hedged risk are expected to be offset by the hedging instrument in a range of 80% to 125%. It is also necessary to assess, retrospectively, whether the hedge was highly effective over the previous one month period. The hedge accounting documentation includes the method and results of the hedge effectiveness assessments.

Prospective and retrospective effectiveness tests are conducted using the quantitative method of dollar offset. This consists in computing the ratio of the change in the clean, cumulated fair value of the hedging instrument to the change in the clean, cumulated fair value of the hedged item attributable to the hedged risk.

Hedge accounting ceases prospectively when any of the following events occur:

- the hedge no longer meets the hedge accounting criteria (for example it is no longer highly effective or its effectiveness is no longer measurable);
- the hedged item is sold or settled;
- the hedging instrument expires or is sold, terminated or exercised;
- the management decides to revoke the designation;

If a hedging relationship no longer meets the hedge effectiveness criteria or fails the materiality threshold mentioned above, hedge accounting ceases from the last date on which the hedge was considered to be effective, which will be the beginning of the period in which the hedge ceased to meet the effectiveness criteria or exceeded the materiality threshold.
If the entity determines that a certain event, change in circumstances/market disruption caused the hedging relationship to fail the effectiveness tests and demonstrates that the hedge was effective before the event or change in circumstances occurred, hedge accounting ceases from the date of the event or change in circumstances.
After derecognition of the hedging relationship, the future fair value changes of the derivative are further recognized in profit or loss under "Trading income", whereas the hedged item will be accounted for as it was before the hedging designation, without applying the hedge accounting rules– e.g. loans will return to amortized cost treatment. For the items for which the effective interest method is used, the previous hedging adjustments are amortized to profit or loss over the remaining life of the hedged item.

l) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise: cash balances on hand, current accounts and other placements with the National Bank of Romania, nostro accounts and placements with other banks which have a short maturity of three months or less from the date of acquisition.

m) Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Costs include expenditures that are directly attributable to the acquisition of an asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The costs with maintenance of property, plant and equipment are recognized in profit or loss account as they incur. Expenses generated by replacing a component of a property, plant and equipment item, including major repairs, are capitalized, if improve the future performance of the property, plant and equipment item.

Depreciation

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each item. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The estimated useful lives are as follows:

Buildings	50 years
Office equipment and furniture	5 years
Motor vehicles	5 years
Computer equipment	4 years

Depreciation methods, useful life and residual values are reassessed at each reporting date and adjusted if appropriate.

n) Intangible assets

Software

Software acquired by the Group is stated at cost less accumulated amortization and accumulated impairment losses. Expenditure on internally developed software is recognized as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits and can reliably measure the costs to complete the development. The capitalized costs of internally developed software include all costs directly attributable to developing the software and are amortized over its useful life.

Subsequent expenditure on software assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates.

All other expenditure is expensed as incurred. Amortization is recognized in profit or loss on a straight line basis over the estimated useful life of the software, from the date that it is available for use. The estimate useful life of software is between 1 and 8 years. Amortization methods, useful life and residual values are reassessed at each reporting date and adjusted if appropriate.

o) Leased assets

Lessee: Leases in terms of which the Group assumes substantially all risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Other leases are operating leases and are not recognized in the Group's statement of financial position.

Lessor: The Group also acts as lessor in contract through which substantially all the risks and rewards of ownership are transferred to the lessee. These contracts are classified as finance leases and a receivable equal to the present value of minimum lease payments is recognized in the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

p) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

A cash-generating unit is the smallest identifiable group of assets that generates cash flows that largely are independent from other assets or groups of assets. Impairment losses are recognized in profit or loss.

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

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

Impairment losses recognized in prior periods are assessed at each reporting date. An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

q) Inventory

Inventories are measured at the lower of cost or net realizable value. Repossessed real estates resulting from loans are booked in accordance with IAS 2 ”Inventories”, at the lower of the cost (i.e.: loan net of provision) and net realizable value (i.e.: realization value of collateral, decreased by selling costs).

r) Deposits from customers, loans from banks, debt securities issued and subordinated liabilities

Deposits from customers, loans from banks, debt securities issued and subordinated liabilities are the Group's sources of funding.

The Group classifies issued financial instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument. Deposits from customers, loans from banks, debt securities issued and subordinated liabilities are initially measured at fair value plus transaction costs, and subsequently measured at their amortized cost using the effective interest method.

s) Employee benefits

Short-term benefits

Short-term employee benefit obligations are expensed as the related service is provided. Short-term employee benefits include wages, bonuses and social security contributions.

An accrual is recognized for the amounts expected to be paid under short-term cash bonus or profit-sharing plans, if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognized as an expense in the consolidated statement of comprehensive income as incurred.

The Group, in the normal course of business makes payments to the Romanian State funds on behalf of its Romanian employees for pension (Pillar 3), health care and unemployment benefit. All employees of the Group 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 consolidated statement of comprehensive income as incurred. The Group does not have any further obligations.

Defined benefit plans

The Group does not operate any defined benefit plan and, consequently, has no obligation in this respect.

Long-term employee benefits

The Group's net obligation in respect of long-term service benefits, other than postemployment plans, is the amount of future benefit that employees have earned in return for their service in the current and prior periods.

In case of retirement, the Group offers to the respective employees a number of salaries, depending on the service period. The obligation for this jubilee granted under the provisions of the Group's collective labour agreement is estimated using the projected unit credit method and is recognized to the consolidated statement of comprehensive income on an accruals basis. Changes in the discount rate and from other actuarial assumptions are recognized as income or expense over the expected average remaining working lives of the employees participating in the plan.

Share-based payment transactions

The fair value of the amount payable to employees in respect of share appreciation rights that are settled in cash is recognized as an expense with a corresponding increase in liabilities over the period in which the employees unconditionally become entitled to payment. The liability is premeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognized as personnel expense in profit or loss.

t) Business combination

The acquisition of business operations is recognized according to the acquisition method. The consideration transferred in a business combination is measured at fair value. This is calculated as the aggregate of the acquisition date fair value of all assets transferred, liabilities assumed from former owners of the acquired business combination and equity instruments issued by the Group in exchange for control of the business combination.

Transaction costs related to business combinations are recognized in the income statement when incurred.

Goodwill is measured as the excess of the aggregate of the value of the consideration transferred, the amount of any noncontrolling interest and the acquisition-date fair value of the acquirer's previously-held equity interest in the acquiree (if any), and the net of the acquisition-date amounts of the fair values of identifiable assets acquired and the liabilities assumed.

In the event that the difference is negative after further review, the resulting gain is recognized immediately in the income statement.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

u) Provisions

A provision is recognized in consolidated financial position if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Provisions include provisions for pending legal issues, provisions for un-drawn commitments and other provisions.

v) Taxes

The Group recognizes its liabilities related to the deposit insurance fee and resolution fund fee in accordance to IFRIC Interpretation 21, "Levies". The liability to pay these levies is recognized when they become constructive. In this case, the obligation arises annually on January 1, as the Bank performs activities related to deposits received.

w) Standards, interpretations and amendments to published International Financial Reporting Standards

Standards issued but not yet effective and not early adopted:

- **IFRS 16: Leases**
  The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer (‘lessee’) and the supplier (‘lessor’). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. Management has assessed that the impact on transition to IAS 16 is of around RON 393 million, which represents the right-of-use assets and lease liability booked in the opening balance as of January 1, 2019. The Group performed transition to IFRS 16 using the modified retrospective approach.

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

- **IFRS 9: Prepayment features with negative compensation (Amendment)**
  The Amendment is effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be ‘negative compensation’), to be measured at amortized cost or at fair value through other comprehensive income. Management has assessed that there is no impact from the implementation of this amendment.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

- **IFRIC INTERPETATION 23: Uncertainty over Income Tax Treatments**
  The Interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. Management has assessed that there is no impact from this interpretation as of January 1, 2019.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

x) Segment reporting

The Group discloses information at segment level to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates.

An operating segment is a component of the Group:
(a) 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)
(b) whose operating results are regularly reviewed by the entity's chief operating decision maker to take decisions about resources to be allocated to the segment and assess its performance, and
(c) for which discrete financial information is available.

Segment reporting is based on the following business lines of the Group: corporate, individuals, small and medium entities (referred to as "SME") and treasury, the latter including financial institutions.

4. TRANSITION TO IFRS 9

Following the implementation of IFRS 9 on 1 January 2018, the Group has also considered the provisions regarding the transition of adopting the standard.

The new accounting categories included in the statement of financial position and statement of comprehensive income reflects the alignment with the relevant categories defined by the new standard. As a result of adopting IFRS 9, the Group has introduced changes to the financial statements presentation.

This section on Transition to IFRS 9 'Financial Instruments' provides information relevant to understanding the impact of the new accounting standard on Group's financial position at 1 January 2018 and as well a link between IAS 39 'Financial Instruments: Recognition and Measurement', IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' and IFRS 9 results.

An analysis showing the impact of transition from the figures presented in the financial statements of 2017 to those in accordance with IFRS 9 for the first-time application as at 1 January 2018 are summarized in the first note of the transition section describing the reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as of 1 January".

The transition provisions for IFRS 9 do not require any retroactive application to earlier reporting periods, consequently the effect of the first-time application is reflected in the equity of the opening balance for the 2018 financial year.

The reconciliation of impact arising from adoption of IFRS in retained earnings and other reserves is disclosed also in the note of transition.

4. TRANSITION TO IFRS 9 (continued)

The table below shows the adoption of IFRS 9 provisions related to the classification and measurement of financial instruments and the following impacts as of 1 January 2018:

Group	Measurement IAS 39 31 December 2017					Measurement IFRS 9 1 January 2018			
In RON thousand	Category	Amount	Reclassification	Remeasurements of expected credit losses	Other remeasurements	Amount	Category	Effects in Retained earnings	Other reserves
Assets									
Loans and advances to banks at amortised cost	L&R(i)	89,168	-	(4)	-	89,164	AC(ii)	(4)	-
Loans and advances to customers at amortised cost	L&R(i)	22,161,274	(344,837)	(56,478)	-	21,759,959	AC(ii)	(56,478)	-
Financial assets mandatorily at fair value through profit or loss		-	344,837	-	(8,621)	336,216	FVPL-mandatorly(v)	(8,621)	-
Investment securities	AFS(iii), FVPL(iv) HTM(vii)	5,249,814	(5,249,814)	-	-	-		-	-
Investment securities at fair value through other comprehensive income		-	3,918,807	-	-	3,918,807	FVOCI(vi)	3,875	(3,875)
Equity instruments at fair value through other comprehensive income		-	33,774	-	8,935	42,709	FVOCI(vi)	-	8,935
Investment securities at amortised cost		-	1,297,233	(35)	-	1,297,198	AC(ii)	(35)	-
Deferred tax assets		17,167	-	-	(1,430)	15,737		-	(1,430)
Total impact from assets			**-**	**(56,517)**	**(1,116)**			**(61,263)**	**3,630**
Liabilities									
Provisions		80,464	-	(15,676)	-	64,788		(15,676)	-
Total impact from liabilities			-	**(15,676)**	**-**			**(15,676)**	**-**
Equity									
Retained earnings		2,156,444	-	(72,193)	(4,746)	2,079,505		(76,939)	-
Other reserves		234,199	-	-	3,630	237,829		-	3,630
Total impact in equity			**-**	**(72,193)**	**(1,116)**			**(76,939)**	**3,630**

(i) L&R-Loans and receivables,
(ii) AC-Amortised Cost,
(iii) AFS - Available-for-sale,
(iv) FVPL-Fair value through profit or loss,
(v) FVPL mandatory- Fair value through profit or loss mandatory,
(vi) FVOCI- Fair value through other comprehensive income
(vii) HTM-Held-tomaturity

4. TRANSITION TO IFRS 9 (continued)

Bank *In RON thousand*	Measurement IAS 39 31 December 2017 Category	Measurement IAS 39 31 December 2017 Amount	Reclassification	Remeasurements of expected credit losses	Other remeasurements	Measurement IFRS 9 1 January 2018 Amount	Measurement IFRS 9 1 January 2018 Category	Effects in Retained earnings	Other reserves
Assets									
Loans and advances to banks at amortised cost	L&R(i)	85,641	-	(4)	-	85,637	AC(ii)	(4)	-
Loans and advances to customers at amortised cost	L&R(i)	21,422,932	(344,837)	(56,618)	-	21,021,477	AC(ii)	(56,618)	-
Financial assets mandatorily at fair value through profit or loss		-	344,837	-	(8,621)	336,216	FVPL-mandatorly(v)	(8,621)	-
Investment securities	AFS(iii), FVPL(iv) HTM(vii)	5,210,494	(5,210,494)	-	-	-		-	-
Investment securities at fair value through other comprehensive income		-	3,901,219	-	-	3,901,219	FVOCI(vi)	3,875	(3,875)
Equity instruments at fair value through other comprehensive income		-	33,545	-	8,935	42,480	FVOCI(vi)	-	8,935
Investment securities at amortised cost		-	1,275,730	(35)	-	1,275,695	AC(ii)	(35)	-
Deferred tax assets		17,050	-	-	(1,430)	15,620		-	(1,430)
Total impact from assets			**-**	**(56,657)**	**(1,116)**			**(61,403)**	**3,630**
Liabilities									
Provisions		78,037	-	(15,676)	0	62,361		(15,676)	-
Total impact from liabilities			**-**	**(15,676)**	**0**			**(15,676)**	**-**
Equity									
Retained earnings		2,089,243	-	(72,333)	(4,746)	2,012,164		(77,079)	-
Other reserves		234,111	-	-	3,630	237,741		-	3,630
Total impact in equity				**(72,333)**	**(1,116)**			**(77,079)**	**3,630**

(i) L&R-Loans and receivables,
(ii) AC-Amortised Cost,
(iii) AFS - Available-for-sale,
(iv) FVPL-Fair value through profit or loss,
(v) FVPL mandatory- Fair value through profit or loss mandatory,
(vi) FVOCI- Fair value through other comprehensive income
(vii) HTM-Held-tomaturity

4. TRANSITION TO IFRS 9 (continued)

In the table below are disclosed the effects of the adoption of IFRS 9 provisions in retained earnings and cumulative other reserves as of 1 January 2018

Grup *In RON thousand*	**Other reserves**	**Retained Earnings**	**Total**
Expected credit losses from loans and advances to customers at amortised cost	-	(56,482)	(56,482)
Expected credit losses from off balance sheet exposure from financial guarantees and commitments	-	(15,676)	(15,676)
Fair value adjustment of loans reclassified from loans and advances to customers at amortised cost	-	(8,621)	(8,621)
Fair value of debt securities at fair value through profit or loss reclassified in investment securities at fair value through other comprehensive income	(3,875)	3,875	-
Impairment of debt securities at amortised cost	-	(35)	(35)
Changes in fair value of equity instruments	8,935	-	8,935
Deferred tax due to changes in fair value of equity instruments	(1,430)	-	(1,430)
Total impact from IFRS 9	**3,630**	**(76,939)**	**(73,309)**

Bank *In RON thousand*	**Other reserves**	**Retained Earnings**	**Total**
Expected credit losses from loans and advances to customers at amortised cost	-	(56,622)	(56,622)
Expected credit losses from off balance sheet exposure from financial guarantees and commitments	-	(15,676)	(15,676)
Fair value adjustment of loans reclassified from loans and advances to customers at amortised cost	-	(8,621)	(8,621)
Fair value of debt securities at fair value through profit or loss reclassified in investment securities at fair value through other comprehensive income	(3,875)	3,875	-
Impairment of debt securities at amortised cost	-	(35)	(35)
Changes in fair value of equity instruments	8,935	-	8,935
Deferred tax due to changes in fair value of equity instruments	(1,430)	-	(1,430)
Total impact from IFRS 9	**3,630**	**(77,079)**	**(73,449)**

4. TRANSITION TO IFRS 9 (continued)

The adoption of IFRS 9 provisions related to the classification and measurement of financial instruments led to the following impact as of 1 January 2018:

- Loans and advances to customers for which the contractual cash flows do not consist solely of payments relating to principal and interest on the principal (SPPI) were reclassified as "Financial assets mandatorily at fair value through profit or loss". As such, loans measured at amortised cost according to IAS 39 (31 December 2017: net carrying amount of RON 344.837 thousand), were reclassified at fair value through profit or loss (1 January 2018: net carrying amount of RON 336.216 thousand). The adjustment made to the retained earnings is a decrease of RON 8,621 thousand.
  Also the new impairment model based on expected credit losses for loans and advances at amortised cost has led to a decrease in retained earnings in amount of RON 56,482 thousand at consolidated level and RON 56,622 thousand at individual level.

- The category "Investment securities" presented as of 31 December 2017 is shown starting with 1 January 2018 under the following captions:

  - *"Investment securities at fair value through profit or loss"* amounting RON 1,021,947 thousand at Group level and RON 1,004,358 thousand at Bank level has been reclassified as "Investment securities measured at fair value through other comprehensive income".
    The impact of the reclassification is an increase in retained earnings, respectively a decrease in comprehensive income in amount of RON 3,875 thousand both at Group and Bank level.

  - *"Investment securities available-for-sale"* amounting RON 2,930,634 thousand at Group level and RON 2,930,406 thousand at the Bank level became "Investment securities at fair value through other comprehensive income" and "Equity instruments at fair value through other comprehensive income". From this category, the Group remeasured equity instruments, other than participations in subsidiaries, joint ventures and associates, from cost to fair value and the impact of changing the measurement method of these financial instruments was recorded in other reserves in the total amount of RON 8,935 thousand together with the deferred tax impact calculated in the amount of RON 1,430 thousand.

  - *"Investment securities held-to-maturity"* amounting to RON 1,297,233 thousand at Group level and RON 1,275,730 thousand at the Bank level became "Investment securities at amortised cost", including an impact on depreciation adjustments amounting to RON 35 thousand.

- The impairment adjustment for off-balance sheet credit risk exposures (letters of credit, financial guarantees and loan commitments) increased in amount of RON 15,676 thousand, the effect is reflected as a decrease in retained earnings.

TRANSLATOR'S EXPLANATORY NOTE: The above translation of the consolidated and separate financial statements is provided as a free translation from Romanian which is the official and binding version.

4. TRANSITION TO IFRS 9 (continued)

The table below shows the reconciliation of impairment allowance under IAS 39 and provision under IAS 37 to expected credit losses under IFRS 9:

Group *In RON thousand*	**Amount according to IAS 39 & IAS 37 at 31 December 2017**	**Other remeasurements**	**Remeasurements of expected credit losses**	**Amount according to IFRS 9 at 1 January 2018**
Impairment allowance for:				
Loans and advances to banks at amortised cost	1,071,337	(127,187)	56,478	1,000,628
Investment securities at amortised cost	-	-	35	35
Loans and advances to banks at amortised cost	-	-	4	4
Loan commitments	10,504	-	10,392	20,896
Guarantees issued	15,038	-	5,284	20,322
Total impact from IFRS 9	**1,096,879**	**(127,187)**	**72,193**	**1,041,885**

Bank *In RON thousand*	**Amount according to IAS 39 & IAS 37 at 31 December 2017**	**Other remeasurements**	**Remeasurements of expected credit losses**	**Amount according to IFRS 9 at 1 January 2018**
Impairment allowance for:				
Loans and advances to banks at amortised cost	1,041,981	(127,187)	56,618	971,412
Investment securities at amortised cost	-	-	35	35
Loans and advances to banks at amortised cost	-	-	4	4
Loan commitments	10,504	-	10,392	20,896
Guarantees issued	15,038	-	5,284	20,322
Total impact from IFRS 9	**1,067,523**	**(127,187)**	**72,333**	**1,012,669**

The column “Other remeasurements” represents the adjustments of gross carrying amount of POCI exposure performed in accordance to IFRS 9.
The column “Remeasurements of expected credit losses” relates to changes in impairment due to differences in the scope of the impairment requirements in IFRS 9 compared to IAS 39, from incurred loss model according to IAS 39 to expected loss model in accordance with IFRS 9.

5. FINANCIAL RISK MANAGEMENT

a) Introduction and overview

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

This note provides details of the Group's exposure to each of the above(mentioned risks, as well as Group's policies and processes for measuring and managing risk.

The most important types of financial risks to which the Group is exposed are credit risk, liquidity risk, market risk and operational risk. Market risk includes currency risk, interest rate risk and equity price risk.

The disclosure requirements according to part 8 of Regulation 575/2013 on prudential requirements for credit institutions and investment firms are published on the Bank's internet page.

Risk management framework

The Management Board has overall responsibility for the establishment and oversight of the risk management framework. Assets and Liabilities Committee ("ALCO"), Credit Risk Committee, Risk Management Committee and Problem Loan Committee are responsible for developing and monitoring Group's risk management policies in their specified areas.

All committees report regularly to the Management Board. The framework for risk management is defined in the risk strategy, elaborated and reviewed with annual frequency. The risk profile is also annually reviewed and comprises the evaluation of all risks considered significant. The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and compliance with the approved limits.

Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations. This process of risk management is critical to the Bank's continuing profitability and each employee within the Group is responsible for monitoring compliance with the Group's risk management procedures.

The Audit Committee reports to the Supervisory Board and has the responsibility to monitor the compliance with risk management procedures. Internal Audit assists the Audit Committee in these functions. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

The Stress Testing exercises are a common practice in the Group. Stress tests to be performed are either locally developed or developed and run at Raiffeisen Bank International Group level. The bank put in place a "Business stress testing concept paper" which establishes the steps, concepts, methodologies and timelines in stress testing process. All stress tests results are analyzed and reported to management.

5. FINANCIAL RISK MANAGEMENT (continued)

b) Credit risk

i) Credit risk management

Credit risk is the risk that the Group will incur a loss because its customers or counterparties fail to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentration, and by monitoring exposures in relation to such limits. The Group is exposed to credit risk through its lending, trading and investing activities and in cases where it acts as an intermediary on behalf of customers or other third parties, or in the situation in which it conducts financial leasing operations, or it issues guarantees.

Credit risk associated with trading and investing activities is managed through the Group's credit risk management process. The risk is mitigated through selecting counterparties of good financial standings and monitoring their activities and through the use of credit limits and when appropriate, by obtaining collateral. The Group's primary exposure to credit risk arises through its loans and advances to customers as well as from conduction of activities related to concluding finance lease contracts. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the balance sheet. The Group is exposed to credit risk on various other financial assets, including derivative instruments and debt investments, the current credit exposure in respect of these instruments is equal to the carrying amount of these assets in the balance sheet. In addition, the Group is exposed to off balance sheet credit risk through commitments to extend credit and guarantees. In order to minimize this risk, Group procedures are in place to screen the customers before granting the loans and lease contracts and to monitor their ability to repay the principal and interest during the duration of the loans and lease contracts and to establish exposure limits.

The Management Board has delegated the responsibility for the credit risk management to the Credit Committee. A Risk Division, reporting to the Chief Risk Officer is responsible for oversight of the Group's credit risk, including:

- Formulating credit policies, by pursuing the target of maintaining a healthy loan portfolio, by establishing adequate limits and defining specific lending criteria for certain products, clients categories etc.
- Establishing and implementing of procedures related to: the treatment and valuation of collaterals, periodical loan reviews, classification and loan portfolio reporting, legal documentation related to loans and lending activity, monitoring and treatment of nonperforming loans, ensuring compliance with the regulatory requirements.
- Establishing an authorization structure of approval and renewing of loan facilities: the authorization limits can be settled at the individual level of certain designated risk analysts or at the Credit Committee level or at the level of the approving entity designated at Group level. The authorization limits are stipulated in the Credit Committee and are established on different criteria like loan amount and compliance with the credit policies.
- Evaluation and review of the credit risk take place in accordance with the authorization limits set out in the Credit Committee as well as with the regulatory requirements.
- Limiting concentrations of exposure to counterparties, geographical areas, industries and by issuer, loan classification category, market liquidity and country (for investment securities). The concentration risk is monitored throughout the portfolio management activity. It is analyzed on a monthly basis through reports and presented to the personnel involved in the lending activity as well as to the management.
- Developing and maintaining the client classification systems depending on the risk grading. Unitary client classification systems are used at Group level depending on the client risk grading. These systems comprise both scoring and rating methodologies. The Group performs periodical reviews of the clients' classification systems. The risk grading measured through the above mentioned systems stands at the base of determining the loan loss provision necessary to cover the default risk.

5. FINANCIAL RISK MANAGEMENT (continued)

- Reviewing and monitoring the compliance of business units with the limits established through the Credit Policies and internal norms.
- Regular reports are provided to Credit Committee on loan portfolio quality and appropriate corrective actions are proposed and implemented.
- Providing information, advice, guidance and expertise to business units in order to promote credit risk management best practice throughout the Group.

The Group has implemented an Early Warning Signs, which is used for a monthly credit portfolio screening targeting identification of upcoming problematic exposures as early as possible. The system is based on triggers automatically detected for each client on monthly basis, but it is also based on ad-hoc manual input if adverse information is known.

The implementation of the credit policies and procedures is insured at the Group's level. Each branch is obliged to respect and implement the Group's loan policies and procedures. Each branch is responsible for the quality and performance of its credit portfolio. The Group has process of centralization of both credit approval and loan administration for companies and individuals, which leads to improved quality of the credit portfolio and better monitoring.

Internal Audit undertakes regular audits of branches/agencies and Group credit processes.

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

ii) Credit risk management

In the table below are presented the risk concentrations by product for retail customers and by economic sectors for non-retail customers. In the table are presented gross balance sheet exposures:

In RON thousand

	Group	Bank
	31 December 2018	**31 December 2018**
Retail customers, of which:		
Personal loan	5,905,944	5,905,944
Mortgage	4,992,691	4,992,691
Consumer loans guaranted with mortgage	1,304,834	1,304,834
Credit Card	938,563	938,563
Overdraft	547,478	547,478
Investment financing	1,339,070	962,314
Non-retail customers, of which:		
Corporate lending	7,054,594	6,832,671
Project finance	1,828,799	1,828,799
Financial institution non-bank	1,620,260	1,620,260
Small business (SMB)	1,273,304	1,086,386
Public sector	312,883	312,883
Sovereign	29,648	29,648
Total gross exposure	**27,148,068**	**26,362,471**
Specific impairment allowance	(1,003,708)	(972,502)
Total loans and advances to customers at amortised cost	**26,144,360**	**25,389,969**

5. FINANCIAL RISK MANAGEMENT (continued)

Group

In RON thousand	**31 December 2018**						
	Stage 1 Collective	**Stage 2 Collective**	**Stage 3 Collective**	**Stage 3 Individuale**	**of which POCI stage 2**	**of which POCI stage 3**	**Total**
Loans and advances to customers at amortised cost							
Non-retail:	**11,093,711**	**607,233**	**-**	**418,544**	**42,913**	**83,371**	**12,119,488**
Corporate lending	6,538,156	205,782	-	310,656	-	78,139	7,054,594
Project finance	1,706,997	60,619	-	61,183	42,913	-	1,828,799
Financial institution non-bank	1,510,261	109,999	-	-	-	-	1,620,260
Small and medium business	1,061,385	165,214	-	46,705	-	5,232	1,273,304
Public sector	271,256	41,627	-	-	-	-	312,883
Sovereign	5,656	23,992	-	-	-	-	29,648
Retail	**12,328,789**	**1,980,575**	**719,216**	**-**	**95,961**	**115,598**	**15,028,580**
Personal Loan	5,255,106	482,675	168,163	-	2,363	960	5,905,944
Mortgage	4,273,648	547,884	171,159	-	29,741	33,204	4,992,691
Micro	1,078,196	186,779	74,095	-	215	1,627	1,339,070
Consumer loans guaranted with mortgage	526,086	488,337	290,411	-	63,322	78,005	1,304,834
Credit card	833,660	96,719	8,184	-	161	1,790	938,563
Overdraft	362,093	178,181	7,204	-	159	12	547,478
Total gross exposure	**23,422,500**	**2,587,808**	**719,216**	**418,544**	**138,874**	**198,969**	**27,148,068**
Impairment allowance	(90,465)	(213,032)	(430,330)	(269,881)	(6,696)	(83,270)	(1,003,708)
Net exposure	**23,332,035**	**2,374,776**	**288,886**	**148,663**	**132,178**	**115,699**	**26,144,360**

5. FINANCIAL RISK MANAGEMENT (continued)

Bank	**31 December 2018**						
In RON thousand	**Stage 1 Collective**	**Stage 2 Collective**	**Stage 3 Collective**	**Stage 3 Individuale**	**of which POCI stage 2**	**of which POCI stage 3**	**Total**
Loans and advances to customers at amortised cost							
Non-retail:	**10,760,997**	**556,846**	**-**	**392,804**	**42,913**	**83,371**	**11,710,647**
Corporate lending	6,352,137	188,294	-	292,240	-	78,139	6,832,671
Project finance	1,706,997	60,619	-	61,183	42,913	-	1,828,799
Financial institution non-bank	1,510,261	109,999	-	-	-	-	1,620,260
Small and medium business	914,690	132,315	-	39,381	-	5,232	1,086,386
Public sector	271,256	41,627	-	-	-	-	312,883
Sovereign	5,656	23,992	-	-	-	-	29,648
Retail	**11,969,993**	**1,974,962**	**706,869**	**-**	**95,961**	**115,598**	**14,651,824**
Personal Loans	5,255,106	482,675	168,163	-	2,363	960	5,905,944
Mortgage	4,273,648	547,884	171,159	-	29,741	33,204	4,992,691
Micro	719,400	181,166	61,748	-	215	1,627	962,314
Consumer loan guaranteed with mortgage	526,086	488,337	290,411	-	63,322	78,005	1,304,834
Credit card	833,660	96,719	8,184	-	161	1,790	938,563
Overdraft	362,093	178,181	7,204	-	159	12	547,478
Total gross exposure	**22,730,990**	**2,531,808**	**706,869**	**392,804**	**138,874**	**198,969**	**26,362,471**
Impairment allowance	(84,898)	(211,936)	(430,330)	(245,338)	(6,696)	(83,270)	(972,502)
Net exposure	**22,646,092**	**2,319,872**	**276,539**	**147,466**	**132,178**	**115,699**	**25,389,969**

5. FINANCIAL RISK MANAGEMENT (continued)

	Group	Bank
	31 December 2017	31 December 2017
In RON thousand		
Retail customers, of which:		
Personal loan	5,244,732	5,244,732
Mortgage	4,622,011	4,622,011
Consumer loan guaranteed with mortgage	1,662,034	1,662,034
Credit Card	824,394	824,394
Overdraft	829,069	829,069
Investment financing	840,354	514,190
Other	16,337	8,434
Non-retail customers, of which:		
Agriculture	479,137	460,680
Electricity, oil & gas	348,984	348,808
Manufacturing	1,657,611	1,562,832
Construction	1,678,306	1,623,128
Wholesale and retail trade	2,339,867	2,230,380
Services	2,264,919	2,110,243
Public sector	424,856	423,978
Total loans	**23,232,611**	**22.464,913**
Specific impairment allowance	(1,071,337)	(1,041,981)
Net loans	**22,161,274**	**21,422,932**

The table below presents the split of loans and advances to retail customers by credit quality:

Group
In RON thousand

	31 December 2018					
Internal rating grade	**Stage 1 Collective**	**Stage 2 Collective**	**Stage 3 Collective**	**Out of which POCI stage 2**	**Out of which POCI stage 3**	**Total**
Minimal Risk	2,938,173	65,634	-	1,225	-	3,003,807
Excellent Credit Standing	1,084,144	55,169	-	4,782	-	1,139,313
Very Good Credit Standing	3,610,045	153,022	-	13,455	-	3,763,067
Good Credit Standing	1,761,402	80,003	-	339	-	1,841,405
Sound Credit Standing	1,487,909	357,018	-	17,646	-	1,844,927
Acceptable Credit Standing	681,347	219,070	-	6,474	-	900,417
Marginal Credit Standing	262,056	564,556	-	31,926	-	826,612
Weak Credit Standing	56,048	210,347	-	9,318	-	266,395
Very Weak Credit Standing	7,375	233,515	-	10,268	-	240,890
Default	-	-	719,216	-	115,598	719,216
Not Rated	440,290	42,241	-	528	-	482,531
Total	**12,328,789**	**1,980,575**	**719,216**	**95,961**	**115,598**	**15,028,580**

Bank
In RON thousand

	31 December 2018					
Internal rating grade	**Stage 1 Collective**	**Stage 2 Collective**	**Stage 3 Collective**	**Out of which POCI stage 2**	**Out of which POCI stage 3**	**Total**
Minimal Risk	2,938,173	65,634	-	1,225	-	3,003,807
Excellent Credit Standing	1,084,144	55,169	-	4,782	-	1,139,313
Very Good Credit Standing	3,610,045	153,022	-	13,455	-	3,763,067
Good Credit Standing	1,761,218	80,003	-	339	-	1,841,221
Sound Credit Standing	1,487,909	357,018	-	17,646	-	1,844,927
Acceptable Credit Standing	681,347	219,070	-	6,474	-	900,417
Marginal Credit Standing	262,056	564,556	-	31,926	-	826,612
Weak Credit Standing	56,048	210,347	-	9,318	-	266,395
Very Weak Credit Standing	7,375	233,515	-	10,268	-	240,890
Default	-	-	706,869	-	115,598	706,869
Not Rated	81,678	36,628	-	528	-	118,306
Total	**11,969,993**	**1,974,962**	**706,869**	**95,961**	**115,598**	**14,651,824**

5. FINANCIAL RISK MANAGEMENT (continued)

The table below presents the split of loans and advances to non - retail customers by credit quality:

Group
In RON thousand

Internal rating grade	Stage 1 Collective	Stage 2 Collective	Stage 3 Collective	Out of which POCI stage 2	Out of which POCI stage 3	Total
			31 December 2018			
Excelent	18,216	-	-	-	-	18,216
Strong	1,439,277	133,990	-	-	-	1,573,267
Good	4,731,948	81,722	-	-	-	4,813,670
Satisfactory	4,698,669	229,445	-	42,913	-	4,928,114
Substandard	88,374	147,789	-	-	-	236,163
Impaired	-	-	417,637	-	83,371	417,637
Unrated	117,227	14,287	907	-	-	132,421
Total	**11,093,711**	**607,233**	**418,544**	**42,913**	**83,371**	**12,119,488**

Bank
In RON thousand

Internal rating grade	Stage 1 Collective	Stage 2 Collective	Stage 3 Collective	Out of which POCI stage 2	Out of which POCI stage 3	Total
			31 December 2018			
Excelent	18,215	-	-	-	-	18,215
Strong	1,610,703	133,991	-	-	-	1,744,694
Good	4,555,071	78,268	-	-	-	4,633,339
Satisfactory	4,401,134	211,264	-	42,913	-	4,612,398
Substandard	58,685	130,442	-	-	-	189,127
Impaired	-	-	392,639	-	83,371	392,639
Unrated	117,189	2,881	165	-	-	120,235
Total	**10,760,997**	**556,846**	**392,804**	**42,913**	**83,371**	**11,710,647**

The table below presents the split of loans and advances to customers by credit quality:

	Group	Bank
In RON thousand	31 December 2017	31 December 2017
Impaired loans		
Retail customers, of which:		
Rating 1 (minimal risk)	50,895	50,895
Rating 2 (excellent credit standing)	44,172	44,172
Rating 3 (very good credit standing)	15,491	15,491
Rating 4 (good credit standing)	7,643	7,643
Rating 5 (average credit standing)	11,334	11,334
Rating 6 (mediocre credit standing)	16,694	16,694
Rating 7 (weak credit standing)	10,257	10,257
Rating 8 (very weak credit standing)	7,140	7,140
Rating 9 (doubtful and/or partial write off)	24,768	24,768
Rating 10 (default)	859,418	859,418
Un-rated	17,719	8,561
Gross amount	**1,065,531**	**1,056,373**
Specific impairment allowance	(616,235)	(609,474)
Carrying amount	**449,296**	**446,899**
Non-retail customers, of which:		
Rating 10 (default)	342,888	314,736
Project finance*	88,525	88,525
Gross amount	**431,413**	**403,261**
Specific impairment allowance	(246,049)	(227,659)
Carrying amount	**185,364**	**175,602**

* The Project finance rating model is a tool defined by the Group for non-retail customers.

5. FINANCIAL RISK MANAGEMENT (continued)

In RON thousand	Group 31 December 2017	Bank 31 December 2017
Past due but not impaired		
Retail customers, of which:		
Rating 1 (minimal risk)	3,394	3,394
Rating 2 (excellent credit standing)	12,595	12,595
Rating 3 (very good credit standing)	41,548	41,548
Rating 4 (good credit standing)	90,728	90,728
Rating 5 (average credit standing)	217,306	217,306
Rating 6 (mediocre credit standing)	246,878	246,878
Rating 7 (weak credit standing)	161,204	161,204
Rating 8 (very weak credit standing)	79,577	79,577
Rating 9 (doubtful and/or partial write off)	197,055	197,055
Rating 10 (default)*	22,964	22,964
Un-rated	42,765	15,406
Gross amount	**1,116,014**	**1,088,655**
Collective impairment allowance	(63,807)	(63,289)
Carrying amount	**1,052,207**	**1,025,366**
Non-retail customers, of which:		
Rating 3 (very good credit standing)	2,255	2,255
Rating 4 (good credit standing)	3,465	3,465
Rating 5 (sound credit standing)	203,337	203,337
Rating 6 (acceptable credit standing)	24,794	18,626
Rating 7 (marginal credit standing)	24,054	23,898
Rating 8 (weak credit standard – sub- standard)	9,589	16,185
Rating 9 (very weak credit standard- doubtful)	1,673	730
Rating 10 (default)*	9,686	9,686
Project finance	120,685	120,685
Un-rated	1,054	1,054
Gross amount	**400,592**	**399,921**
Collective impairment allowance	(2,303)	(2,204)
Carrying amount	**398,289**	**397,717**

* Over collateralised exposures which are individually analysed

5. FINANCIAL RISK MANAGEMENT (continued)

In RON thousand	Group 31 December 2017	Bank 31 December 2017
Neither past due nor impaired		
Retail customers, of which:		
Rating 1 (minimal risk)	2,507,149	2,507,149
Rating 2 (excellent credit standing)	3,649,357	3,649,357
Rating 3 (very good credit standing)	2,427,287	2,427,287
Rating 4 (good credit standing)	1,002,974	1,002,974
Rating 5 (average credit standing)	941,926	941,926
Rating 6 (mediocre credit standing)	534,230	534,230
Rating 7 (weak credit standing)	250,043	250,043
Rating 8 (very weak credit standing)	77,248	77,248
Rating 9 (doubtful and/or partial write off)	48,392	48,392
Rating 10 (default)*	11,932	11,932
Un-rated	406,848	109,298
Gross amount	**11,857,386**	**11,559,836**
Collective impairment allowance	(106,624)	(106,441)
Carrying amount	**11,750,762**	**11,453,395**
Non-retail customers, of which:		
Rating 1 (minimal risk)	13,343	13,295
Rating 2 (excellent credit standing)	124,342	124,104
Rating 3 (very good credit standing)	198,365	324,184
Rating 4 (good credit standing)	423,467	356,362
Rating 5 (sound credit standing)	1,656,527	1,545,411
Rating 6 (acceptable credit standing)	2,752,139	2,636,731
Rating 7 (marginal credit standing)	1,532,577	1,354,090
Rating 8 (weak credit standard – sub-standard)	176,817	138,776
Rating 9 (very weak credit standard - doubtful)	83,579	63,471
Rating 10 (default)*	17,285	17,285
Project finance	1,379,436	1,379,436
Un-rated	3,798	3,722
Gross amount	**8,361,675**	**7,956,867**
Collective impairment allowance	(36,319)	(32,914)
Carrying amount	**8,325,356**	**7,923,953**
Total carrying amount loans and advances to customers	**22,161,274**	**21,422,932**

* Over collateralised exposures which are individually analysed

5. FINANCIAL RISK MANAGEMENT (continued)

At Group level, loans and advances to banks in amount of RON 437,854 thousand (31 December 2017: RON 89,168 thousand), trading assets in amount of RON 299,045 thousand (31 December 2017: RON 86,298 thousand), derivative assets held for risk management in amount of RON 8,620 thousand (31 December 2017: RON 35,237 thousand), as well as investment securities at fair value through other comprehensive income in amount of RON 3,204,307 thousand, equity instruments at fair value through other comprehensive income in amount of RON 48,023 thousand and investment securities at amortised cost in amount RON 2,333,367 thousand (31 December 2017: investment securities in amount of RON 5,249,814 thousand), are all classified as current.

At Bank level, loans and advances to banks in amount of RON 435,126 thousand (31 December 2017: RON 85,641 thousand), trading assets in amount of RON 298,926 thousand (31 December 2017: RON 86,775 thousand), derivative assets held for risk management in amount of RON 8,620 thousand (31 December 2017: RON 35,237 thousand), as well as investment securities at fair value through other comprehensive income in amount of RON 3,204,307 thousand, equity instruments at fair value through other comprehensive income in amount of RON 48,023 thousand and investment securities at amortised cost in amount RON 2,308,071 thousand (31 December 2017: investment securities in amount RON 5,210,494 thousand), are all classified as current.

Loans and advances to banks as of 31 December, 2018 mainly represent balances in correspondent bank accounts and collateral deposits. Nostro accounts are always available to the Group, are not restricted, not overdue or impaired. Bank counterparties are financial institutions presenting strong financial solidity.

For corporate entities, small and medium entities, financial institutions, local and central public authorities customers, the Group uses rating scales associated with the financial performance, both for the individually and for the collectively impaired loans and advances. In accordance with the Group's policies and procedures, a rating can be associated for each category of risk, from the lowest risk considered (Rating 1) to defaulted loans category (Rating 10). In the case of private individuals and micro exposures, the credit risk is assessed based on advanced internal model rating approach and is compliant with Basel regulatory requests. The Bank assigns ratings to customers at facility level for private individuals and at customer level for micro. After the calibration process a probability of default is assigned to rating classes associated.

5. FINANCIAL RISK MANAGEMENT (continued)

The tables on the following pages show the maximum on-balance sheet exposure to credit risk by segment. They also shows the total fair value of collateral, any surplus of collateral, and the net exposure to credit risk.

	31 December 2018					
Group *In RON thousand*	**Maxim exposure to credit risk**	**Fair value of collateral**	**Surplus of collateral**	**Total collateral**	**Net exposure**	**Associated ELCs**
Non-retail						
Corporate lending	7,054,594	1,859,539	(409,830)	1,449,709	5,604,885	233,808
Project finance	1,828,799	1,663,851	(591,674)	1,072,177	756,622	45,114
Financial institution non-bank	1,620,260	-	-	-	1,620,260	452
Small and medium business	1,273,304	598,181	(194,200)	403,981	869,323	33,990
Public sector	312,883	-	-	-	312,883	752
Sovereign	29,648	-	-	-	29,648	1
Total Non-retail	**12,119,488**	**4,121,571**	**(1,195,704)**	**2,925,867**	**9,193,621**	**314,117**
Retail						
Personal loans	5,905,944	492	(454)	38	5,905,906	240,426
Mortgage	4,992,691	3,547,857	(488,369)	3,059,488	1,933,203	148,592
Micro	1,339,070	568,155	(257,338)	310,817	1,028,253	78,295
Consumer loan guaranteed with mortgage	1,304,834	1,539,392	(587,941)	951,451	353,383	183,230
Credit card	938,563	-	(83)	(83)	938,646	17,686
Overdraft	547,478	-	(2,913)	(2,913)	550,391	21,362
Total Retail	**15,028,580**	**5,655,896**	**(1,337,098)**	**4,318,798**	**10,709,782**	**689,591**
Financial assets at fair value through profit or loss	**438,603**	**279,700**	**(49,182)**	**230,518**	**208,085**	**58,375**

5. FINANCIAL RISK MANAGEMENT (continued)

Bank *In RON thousand*	31 December 2018 Maxim exposure to credit risk	Fair value of collateral	Surplus of collateral	Total collateral	Net exposure	Associated ELCs
Non-retail						
Corporate lending	6,832,671	1,799,208	(409,830)	1,389,378	5,443,293	215,593
Project finance	1,828,799	1,663,851	(591,674)	1,072,177	756,622	45,114
Financial institution non-bank	1,620,260	-	-	-	1,620,260	452
Small and medium business	1,086,386	596,273	(194,200)	402,073	684,313	29,936
Public sector	312,883	-	-	-	312,883	752
Sovereign	29,648	-	-	-	29,648	1
Total Non-retail	**11,710,647**	**4,059,332**	**(1,195,704)**	**2,863,628**	**8,847,019**	**291,848**
Retail						
Personal loans	5,905,944	492	(454)	38	5,905,906	240,426
Mortgage	4,992,691	3,547,857	(488,369)	3,059,488	1,933,203	148,592
Micro	962,314	568,155	(257,338)	310,817	651,497	69,358
Consumer loan guaranteed with mortgage	1,304,834	1,539,392	(587,941)	951,451	353,383	183,230
Credit card	938,563	-	(83)	(83)	938,646	17,686
Overdraft	547,478	-	(2,913)	(2,913)	550,391	21,362
Total Retail	**14,651,824**	**5,655,896**	**(1,337,098)**	**4,318,798**	**10,333,026**	**680,654**
Financial assets at fair value through profit or loss	**426,883**	**279,700**	**(49,182)**	**230,518**	**196,365**	**58,375**

5. FINANCIAL RISK MANAGEMENT (continued)

The below tables provide an analysis of the current fair values of collateral held and credit enhancements for stage 3 assets:

	31 December 2018					
Group *In RON thousand*	**Maxim exposure to credit risk**	**Fair value of collateral**	**Surplus of collateral**	**Total collateral**	**Net exposure**	**Associated ELCs**
Non-retail						
Corporate lending	310,656	84,891	(6,963)	77,928	232,728	202,177
Project finance	61,183	21,192	-	21,192	39,991	39,990
Financial institution non-bank	-	-	-	-	-	-
Small and medium business	46,705	10,396	(1,116)	9,280	37,425	27,714
Public sector	-	-	-	-	-	-
Sovereign	-	-	-	-	-	-
Total Non-retail	**418,544**	**116,479**	**(8,079)**	**108,400**	**310,144**	**269,881**
Retail						
Personal loans	168,163	235	(234)	1	168,162	142,270
Mortgage	171,159	122,986	(13,932)	109,054	62,105	86,504
Micro	74,095	36,946	(16,270)	20,676	53,419	57,622
Consumer loan guaranteed with mortgage	290,411	254,670	(54,228)	200,442	89,969	131,301
Credit card	8,184	-	-	-	8,184	5,958
Overdraft	7,204	-	-	-	7,204	6,675
Total Retail	**719,216**	**414,837**	**(84,664)**	**330,173**	**389,043**	**430,330**

5. FINANCIAL RISK MANAGEMENT (continued)

Bank *In RON thousand*	**31 December 2018** **Maxim exposure to credit risk**	**Fair value of collateral**	**Surplus of collateral**	**Total collateral**	**Net exposure**	**Associated ELCs**
Non-retail						
Corporate lending	292,240	84,891	(6,963)	77,928	214,312	180,266
Project finance	61,183	21,192	-	21,192	39,991	39,990
Financial institution non-bank	-	-	-	-	-	-
Small and medium business	39,381	10,396	(1,116)	9,280	30,101	25,082
Public sector	-	-	-	-	-	-
Sovereign	-	-	-	-	-	-
Total Non-retail	**392,804**	**116,479**	**(8,079)**	**108,400**	**284,404**	**245,338**
Retail						
Personal loans	168,163	235	(234)	1	168,162	142,270
Mortgage	171,159	122,986	(13,932)	109,054	62,105	86,504
Micro	61,748	36,946	(16,270)	20,676	41,072	57,622
Consumer loan guaranteed with mortgage	290,411	254,670	(54,228)	200,442	89,969	131,301
Credit card	8,184	-	-	-	8,184	5,958
Overdraft	7,204	-	-	-	7,204	6,675
Total Retail	**706,869**	**414,837**	**(84,664)**	**330,173**	**376,696**	**430,330**

5. FINANCIAL RISK MANAGEMENT (continued)

The tables on the following pages show the maximum off-balance sheet exposure to credit risk by by segment. They also shows the total fair value of collateral, any surplus collateral, and the net exposure to credit risk:

	31 December 2018					
Group	**Maxim exposure to credit risk**	**Fair value of collateral**	**Surplus of collateral**	**Total collateral**	**Net exposure**	**Associated provision**
In RON thousand						
Non-retail						
Financial guarantees given	2,728,212	108,886	(12,750)	96,136	2,632,076	38,794
Loan commitments given	6,943,783	275,360	(25,980)	249,380	6,694,403	21,334
Total Non-retail	**9,671,995**	**384,246**	**(38,730)**	**345,516**	**9,326,479**	**60,128**
Retail						
Financial guarantees given	22,113	7,237	(1,047)	6,190	15,923	43
Loan commitments given	2,757,318	20,382	(7,049)	13,333	2,743,985	9,233
Total Retail	**2,779,431**	**27,619**	**(8,096)**	**19,523**	**2,759,908**	**9,276**

	31 December 2018					
Bank	**Maxim exposure to credit risk**	**Fair value of collateral**	**Surplus of collateral**	**Total collateral**	**Net exposure**	**Associated provision**
In RON thousand						
Non-retail						
Financial guarantees given	2,728,212	108,886	(12,750)	96,136	2,632,076	38,794
Loan commitments given	6,890,211	275,360	(25,980)	249,380	6,640,831	21,334
Total Non-retail	**9,618,423**	**384,246**	**(38,730)**	**345,516**	**9,272,907**	**60,128**
Retail						
Financial guarantees given	22,113	7,237	(1,047)	6,190	15,923	43
Loan commitments given	2,756,336	20,382	(7,049)	13,333	2,743,003	9,233
Total Retail	**2,778,449**	**27,619**	**(8,096)**	**19,523**	**2,758,926**	**9,276**

5. FINANCIAL RISK MANAGEMENT (continued)

The below tables provide an analysis of the current fair values of collateral held and credit enhancements for stage 3 assets:

	31 December 2018					
Group *In RON thousand*	**Maxim exposure to credit risk**	**Fair value of collateral**	**Surplus of collateral**	**Total collateral**	**Net exposure**	**Associated provision**
Non-retail						
Financial guarantees given	111,683	7,921	(1,073)	6,848	104,835	38,012
Loan commitments given	35,907	881	-	881	35,026	9,768
Total Non-retail	**147,590**	**8,802**	**(1,073)**	**7,729**	**139,861**	**47,780**
Retail						
Financial guarantees given	-	-	-	-	-	-
Loan commitments given	2,469	-	-	-	2,469	2,238
Total Retail	**2,469**	**-**	**-**	**-**	**2,469**	**2,238**

	31 December 2018					
Bank *In RON thousand*	**Maxim exposure to credit risk**	**Fair value of collateral**	**Surplus of collateral**	**Total collateral**	**Net exposure**	**Associated provision**
Non-retail						
Financial guarantees given	111,683	7,921	(1,073)	6,848	104,835	38,012
Loan commitments given	35,907	881	-	881	35,026	9,768
Total Non-retail	**147,590**	**8,802**	**(1,073)**	**7,729**	**139,861**	**47,780**
Retail						
Financial guarantees given	-	-	-	-	-	-
Loan commitments given	2,469	-	-	-	2,469	2,238
Total Retail	**2,469**	**-**	**-**	**-**	**2,469**	**2,238**

5. FINANCIAL RISK MANAGEMENT (continued)

An analysis of collaterals (presented as the minimum between the exposure and the net realizable value of collateral) related to the loans granted to clients is presented as follows:

	31 December 2017	
In RON thousand	**Group**	**Bank**
Value of collaterals held against impaired loans and advances		
Property	532,738	532,738
Equipment, vehicles and other guarantees	8,174	1,184
Cash collateral deposit	2,734	2,734
Letters of guarantee	18,749	15,964
Debt securities	8	8
Total	**562,403**	**552,628**

	31 December 2017	
In RON thousand	**Group**	**Bank**
Value of collaterals held against unimpaired loans and advances		
Property	5,969,156	5,967,648
Equipment, vehicles and other guarantees	1,444,153	810,640
Cash collateral deposit	92,927	90,915
Letters of guarantee	1,961,662	1,961,662
Debt securities	44,948	44,948
Total	**9,512,846**	**8,875,813**

The Group holds collateral against loans and advances to customers in the form of pledge over cash deposits, mortgage interests over property, guarantees and other pledge over equipments and/or receivable.The value of the mortgage collaterals executed by the Group as a result of the enforcement at December 31, 2018 was RON 56,190 thousand (December 31, 2017: RON 73,044 thousand).

5. FINANCIAL RISK MANAGEMENT (continued)

The table below shows the amount of over collateralized exposures and the value of guarantees related to Group and Bank:

In RON thousand	Group			Bank		
	31 December 2017			31 December 2017		
	Gross exposure	Value of collaterals	Net	Gross exposure	Value of collaterals	Net
Retail customers, of which:	*2,071,911*	*3,528,051*	*1,456,140*	*1,980,611*	*3,394,030*	*1,413,419*
Personal loan	1,563	3,859	2,296	1,563	3,859	2,296
Mortgage	1,119,397	1,616,890	497,493	1,119,397	1,616,890	497,493
Consumer loan guaranteed with mortgage	572,165	1,148,004	575,839	572,165	1,148,004	575,839
Overdraft	96,591	227,105	130,514	96,591	227,105	130,514
Investment financing	276,083	521,857	245,774	190,895	398,172	207,277
Other	6,112	10,336	4,224	-	-	-
Non-retail customers, of which:	*2,116,904*	*3,859,876*	*1,742,972*	*2,029,734*	*3,719,846*	*1,690,112*
Agriculture	101,461	231,784	130,323	97,691	225,797	128,106
Electricity, oil & gas	66,024	112,795	46,771	66,024	112,795	46,771
Manufacturing	331,821	603,110	271,289	301,837	560,065	258,228
Construction	555,297	908,013	352,716	550,854	901,642	350,788
Wholesale and retail trade	467,579	890,924	423,345	456,012	872,077	416,065
Services	586,002	1,102,769	516,767	548,776	1,037,221	488,445
Public sector	8,720	10,481	1,761	8,540	10,249	1,709
TOTAL	**4,188,815**	**7,387,927**	**3,199,112**	**4,010,345**	**7,113,876**	**3,103,531**

Credit exposure under collateralized at Group and Bank level is showed in the table below:

In RON thousand	Group			Bank		
	31 December 2017			31 December 2017		
	Gross exposure	Value of collaterals	Net	Gross exposure	Value of collaterals	Net
Retail customers, of which:	*11,967,020*	*3,803,834*	*(8,163,186)*	*11,724,253*	*3,644,918*	*(8,079,335)*
Personal loan	5,243,169	5	(5,243,164)	5,243,169	5	(5,243,164)
Mortgage	3,502,614	2,781,193	(721,421)	3,502,614	2,781,193	(721,421)
Consumer loan guaranteed with mortgage	1,089,869	603,585	(486,284)	1,089,869	603,585	(486,284)
Credit Card	824,394	0	(824,394)	824,394	0	(824,394)
Overdraft	732,478	86,782	(645,696)	732,478	86,782	(645,696)
Investment financing	564,271	328,671	(235,600)	323,295	170,697	(152,598)
Other	10,225	3,598	(6,627)	8,434	2,656	(5,778)
Non-retail customers, of which:	*7,076,776*	*2,546,130*	*(4,530,646)*	*6,730,315*	*2,238,943*	*(4,491,372)*
Agriculture	377,676	140,975	(236,701)	362,989	132,232	(230,757)
Electricity, oil & gas	282,960	47,111	(235,849)	282,784	47,089	(235,695)
Manufacturing	1,325,790	433,496	(892,294)	1,260,995	397,292	(863,703)
Construction	1,123,009	567,538	(555,471)	1,072,274	530,027	(542,247)
Wholesale and retail trade	1,872,288	694,387	(1,177,901)	1,774,368	632,663	(1,141,705)
Services	1,678,917	629,470	(1,049,447)	1,561,467	466,994	(1,094,473)
Public sector	416,136	33,153	(382,983)	415,438	32,646	(382,792)
TOTAL	**19,043,796**	**6,349,964**	**(12,693,832)**	**18,454,568**	**5,883,861**	**(12,570,707)**

5. FINANCIAL RISK MANAGEMENT (continued)

Impaired loans and securities

Impaired loans and securities are loans and securities for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / securities agreement(s).

Past due status

For loans and securities, where contractual interest or principal payments are past due the Group believes that impairment is not appropriate due to the fact that there are no objective evidence for impairment or there are objective evidence of impairment but there is no identified loss at the level of these customers.

Loans and advances to customers past due of December 31, 2018 were as follows:

Group *In RON thousands*	Stage 1			Stage 2			Stage 3		
	<=30 zile	31-90 zile	>90 zile	<=30 zile	31-90 zile	>90 zile	<=30 zile	31-90 zile	>90 zile
Retail customers	691,507	-	-	346,416	160,490	-	27,813	18,082	125,090
Non-retail customers	823,138	-	-	18,464	7,457	-	6,416	1,073	38,629
Total	**1,514,645**	**-**	**-**	**364,880**	**167,947**	**-**	**34,229**	**19,155**	**163,719**

Bank *In RON thousands*	Stage1			Stage 2			Stage 3		
	<=30 zile	31-90 zile	>90 zile	<=30 zile	31-90 zile	>90 zile	<=30 zile	31-90 zile	>90 zile
Retail customers	689,181	-	-	346,346	160,380	-	27,813	18,070	125,082
Non-retail customers	795,986	-	-	14,647	1,626	-	4,417	-	31,114
Total	**1,485,167**	**-**	**-**	**360,993**	**162,006**	**-**	**31,960**	**18,070**	**156,196**

Loans and advances to customers past due but not impaired as of December 31, 2017 were as follows:

Group *In RON thousands*	< 30 days	31 - 60 days	61 - 90 days	91 - 180 days	181 days - 1 year	>1 year*	Total
Non retail customers	390,463	2,021	3,201	3,606	981	320	400,592
Retail customers	902,569	121,431	67,932	9,477	4,252	10,353	1,116,014
TOTAL	**1,293,032**	**123,452**	**71,133**	**13,083**	**5,233**	**10,673**	**1,516,606**

Bank *In RON thousands*	< 30 days	31 - 60 days	61 - 90 days	91 - 180 days	181 days - 1 year	>1 year*	Total
Non retail customers	390,023	2,021	3,137	3,439	981	320	399,921
Retail customers	883,503	121,053	60,718	8,776	4,252	10,353	1,088,655
TOTAL	**1,273,526**	**123,074**	**63,855**	**12,215**	**5,233**	**10,673**	**1,488,576**

5. FINANCIAL RISK MANAGEMENT (continued)

The table below presents the portfolio of loans to cutomers at amortised cost split on industries:

Group
In RON thousand

Non retail	Stage 1 Collective	Stage 2 Collective	Stage 3 Individuale	of which POCI stage 2	of which POCI stage 3	Total
			31 December 2018			
A. Agriculture, forestry and fishing	464,187	50,838	16,138	-	3,245	531,163
B. Mining and quarrying	11,240	1,635	2,929	-	-	15,804
C. Manufacturing	1,886,302	62,650	91,722	-	15,804	2,040,674
D. Electricity, gas, steam and air conditioning supply	260,769	20,128	27,896	-	-	308,793
E. Water supply	66,453	2,187	5,102	-	-	73,742
F. Construction	906,823	20,639	38,929	-	7,170	966,391
G. Wholesale and retail trade	2,784,766	133,205	89,963	-	21,316	3,007,934
H. Transport and storage services	719,212	33,592	2,558	-	340	755,362
I. Accommodation and restaurant services	238,656	50,778	38	42,913	-	289,472
J. Information and communications	299,331	677	34,364	-	30,726	334,372
K. Financial and insurance activities	1,440,088	109,999	3	-	-	1,550,090
L. Real estate activities	1,022,989	-	81,997	-	-	1,104,986
M. Professional, scientific and technical activities	254,581	21,946	8,416	-	217	284,943
N. Administrative and support service activities	136,991	5,160	8,234	-	-	150,385
O. Public administration and defence, compulsory social security	231,067	65,619	-	-	-	296,686
P. Education	50,623	625	870	-	-	52,118
Q. Human health services and social work activities	297,461	678	-	-	-	298,139
R. Arts, entertainment and recreation	6,683	549	6,500	-	4,553	13,732
S. Other services	15,489	26,328	2,885	-	-	44,702
TOTAL	**11,093,711**	**607,233**	**418,544**	**42,913**	**83,371**	**12,119,488**

5. FINANCIAL RISK MANAGEMENT (continued)

The table below presents the portfolio of loans to cutomers at amortised cost split on industries:

Banca
In RON thousand

	31 December 2018					
Non retail	**Stage 1 Collective**	**Stage 2 Collective**	**Stage 3 Individuale**	**of which POCI stage 2**	**of which POCI stage 3**	**Total**
A. Agriculture, forestry and fishing	429,736	47,295	15,886	-	3,245	492,917
B. Mining and quarrying	10,109	1,635	2,929	-	-	14,673
C. Manufacturing	1,778,170	54,435	89,657	-	15,804	1,922,262
D. Electricity, gas, steam and air conditioning supply	260,769	17,707	27,896	-	-	306,372
E. Water supply	50,827	2,187	5,102	-	-	58,116
F. Construction	843,494	16,430	31,359	-	7,170	891,283
G. Wholesale and retail trade	2,593,329	124,732	88,627	-	21,316	2,806,688
H. Transport and storage services	890,095	33,592	2,558	-	340	926,245
I. Accommodation and restaurant services	194,740	50,778	38	42,913	-	245,556
J. Information and communications	287,595	677	34,364	-	30,726	322,636
K. Financial and insurance activities	1,440,088	109,999	3	-	-	1,550,090
L. Real estate activities	1,021,916	-	76,384	-	-	1,098,300
M. Professional, scientific and technical activities	254,454	3,050	8,416	-	217	265,920
N. Administrative and support service activities	127,152	5,160	72	-	-	132,384
O. Public administration and defence, compulsory social security	230,478	65,619	-	-	-	296,097
P. Education	50,355	625	870	-	-	51,850
Q. Human health services and social work activities	281,740	678	-	-	-	282,418
R. Arts, entertainment and recreation	461	549	6,500	-	4,553	7,510
S. Other services	15,489	21,698	2,143	-	-	39,330
TOTAL	**10,760,997**	**556,846**	**392,804**	**42,913**	**83,371**	**11,710,647**

5. FINANCIAL RISK MANAGEMENT (continued)

The table below presents the portfolio of loans to cutomers at amortised cost split on industries:

Group
In RON thousand

Retail	Stage 1 Collective	Stage 2 Collective	Stage 3 Individuale	of which POCI stage 2	of which POCI stage 3	Total
	31 December 2018					
A. Agriculture, forestry and fishing	115,123	22,324	4,266	-	46	141,713
B. Mining and quarrying	581	416	90	-	-	1,087
C. Manufacturing	79,701	23,620	9,057	-	256	112,378
D. Electricity, gas, steam and air conditioning supply	99	413	222	-	-	734
E. Water supply	6,164	2,014	1,296	-	3	9,474
F. Construction	59,442	21,975	8,947	-	233	90,364
G. Wholesale and retail trade	230,381	45,903	21,955	55	1,028	298,239
H. Transport and storage services	393,496	36,582	6,637	-	2	436,715
I. Accommodation and restaurant services	21,169	3,367	2,266	-	-	26,802
J. Information and communications	12,510	2,228	544	-	-	15,282
K. Financial and insurance activities	27	9	55	-	-	91
L. Real estate activities	7,861	796	859	-	-	9,516
M. Professional, scientific and technical activities	42,030	10,407	2,108	-	58	54,545
N. Administrative and support service activities	18,839	4,740	1,467	160	-	25,046
O. Public administration and defence, compulsory social security	478	-	-	-	-	478
P. Education	1,526	737	87	-	-	2,350
Q. Human health services and social work activities	22,683	3,467	586	-	-	26,736
R. Arts, entertainment and recreation	4,299	260	484	-	1	5,043
S. Other services	61,786	7,521	13,168	-	-	82,475
Personal individualls	11,250,594	1,793,796	645,122	95,746	113,971	13,689,512
TOTAL	**12,328,789**	**1,980,575**	**719,216**	**95,961**	**115,598**	**15,028,580**

5. FINANCIAL RISK MANAGEMENT (continued)

The table below presents the portfolio of loans to cutomers at amortised cost split on industries:

Bank
In RON thousand

	31 December 2018					
Retail	**Stage 1 Collective**	**Stage 2 Collective**	**Stage 3 Individuale**	**of which POCI stage 2**	**of which POCI stage 3**	**Total**
A. Agriculture, forestry and fishing	115,123	22,324	4,266	-	46	141,713
B. Mining and quarrying	581	416	90	-	-	1,087
C. Manufacturing	79,701	23,620	9,057	-	256	112,378
D. Electricity, gas, steam and air conditioning supply	99	413	222	-	-	734
E. Water supply	6,164	2,014	1,296	-	3	9,474
F. Construction	59,442	21,975	8,947	-	233	90,364
G. Wholesale and retail trade	230,381	45,903	21,955	55	1,028	298,239
H. Transport and storage services	83,700	36,582	6,637	-	2	126,919
I. Accommodation and restaurant services	21,169	3,367	2,266	-	-	26,802
J. Information and communications	12,510	2,228	544	-	-	15,282
K. Financial and insurance activities	27	9	55	-	-	91
L. Real estate activities	7,861	796	859	-	-	9,516
M. Professional, scientific and technical activities	42,030	10,407	2,108	-	58	54,545
N. Administrative and support service activities	18,839	4,740	1,467	160	-	25,046
O. Public administration and defence, compulsory social security	478	-	-	-	-	478
P. Education	1,526	737	87	-	-	2,350
Q. Human health services and social work activities	22,683	3,467	586	-	-	26,736
R. Arts, entertainment and recreation	4,299	260	484	-	1	5,043
S. Other services	12,786	1,908	821	-	-	15,515
Personal individualls	11,250,594	1,793,796	645,122	95,746	113,971	13,689,512
TOTAL	**11,969,993**	**1,974,962**	**706,869**	**95,961**	**115,598**	**14,651,824**

5. FINANCIAL RISK MANAGEMENT (continued)

ECL Scenario

The table shows the Group Research values of the key forward looking economic variables/assumptions used in each of the economic scenarios, as of December 31, 2018. These variables are the most significant variables used in ECL calculation.

31 December 2018 Keydrivers	ECL Scenario	Assigned Probabilities	2019	2020	2021
		%	%	%	%
Retail					
GDP growth %					
	Baseline	50	2.50	2.50	1.50
	Upside	25	3.50	3.80	3.10
	Downside	25	0.10	(0.70)	(2.40)
EUR/RON					
	Baseline	50	4.75	4.85	4.93
	Upside	25	4.49	4.52	4.52
	Downside	25	5.02	5.20	5.35
ROBOR 3M					
	Baseline	50	2.80	2.80	2.90
	Upside	25	1.20	0.70	0.30
	Downside	25	4.30	4.80	5.30
Unemployment					
	Baseline	50	4.20	4.50	5.60
	Upside	25	3.90	4.10	5.20
	Downside	25	5.10	5.70	7.00
Non-retail					
GDP growth %					
	Baseline	50	2.50	2.50	1.50
	Upside	25	3.50	3.80	3.10
	Downside	25	0.10	(0.70)	(2.40)

The Group's internal credit rating grades

The tables below show the internal credit rating grade by type of customers :

Retail: Personal Individuals, MICRO
31 December 2018

Internal rating grade	Internal rating description	12 month Basel III PD range
Performing		
0	Not Rated	
0.5	Minimal Risk	[0.00%-0.17%]
1	Excellent Credit Standing	[0.17% - 0.35%)
1.5	Very Good Credit Standing	[0.35% - 0.69%)
2	Good Credit Standing	[0.69% - 1.37%)
2.5	Sound Credit Standing	[1.37% - 2.7%)
3	Acceptable Credit Standing	[2.7% - 5.26%)
3.5	Marginal Credit Standing	[5.26% - 10%)
4	Weak Credit Standing	[10% - 18.18%)
4.5	Very Weak Credit Standing	[18.18% - 100%)
Non- performing		
5	Default	100%

5. FINANCIAL RISK MANAGEMENT (continued)

Non-retail: New models –Corporate, Small and medium business and Financial institution
31 December 2018

Internal rating grade	Internal rating description	12 month Basel III PD range	Internal rating grade mapping
Performing			
1A, 1B, 1C	Minimal Risk	[0.00%-0.03%)	Excellent
2A, 2B, 2C	Excellent Credit Standing	[0.03% - 0.08%)	Strong
3A, 3B, 3C	Very Good Credit Standing	[0.08% - 0.19%)	
4A, 4B, 4C	Good Credit Standing	[0.19% - 0.47%)	Good
5A, 5B, 5C	Sound Credit Standing	[0.47% - 1.17%)	
6A, 6B, 6C	Acceptable Credit Standing	[1.17% - 2.93%)	Satisfactory
7A, 7B, 7C	Marginal Credit Standing	[2.93% - 7.33%)	
8A, 8B, 8C	Weak Credit Standing	[7.33% - 18.33%)	Substandard
9A, 9B, 9C	Very Weak Credit Standing	[18.33% - 100%)	
Non- performing			
10	Default	100%	Impaired

Non-retail: Project Finance
31 December 2018

Internal rating grade	Internal rating description	12 month Basel III PD range	Internal rating grade mapping
Performing			
6.1	Excellent project risk profile - very low risk	[0.00%-1.37%)	Good
6.2	Good project risk profile - low risk	[1.37% - 3.98%)	Satisfactory
6.3	Acceptable risk profile - average risk	[3.98% - 18.34%)	
6.4	Poor project risk profile - high risk	[18.34% - 100%)	Substandard
Non- performing			
6.5	Default	100%	Impaired

Non-retail: Insurance
31 December 2018

Internal rating grade	Internal rating description	12 month Basel III PD range	Internal rating grade mapping
Performing			
0.5	Minimal Risk	[0.00% - 0.03%3	Excellent
1	Excellent Credit Standing	[0.03% - 0.04%)	Strong
1.5	Very Good Credit Standing	[0.03% - 0.04%)	
2	Good Credit Standing	[0.04% - 0,08%)	
2.5	Sound Credit Standing	[0.08% - 0.14%)	
3	Acceptable Credit Standing	[0.14% - 1.17%)	
3.5	Marginal Credit Standing	[1.17% - 1.59%)	Satisfactory
4	Weak Credit Standing	[1.59% - 7.33%)	
4.5	Risc foarte slab	[7.33% - 100%)	Substandard
Non- performing			
5	Default	100%	Impaired

5. FINANCIAL RISK MANAGEMENT (continued)

Non-retail: Sovereign
31 December 2018

Internal rating grade	Internal rating description	12 month Basel III PD range	Internal rating grade mapping
Performing			
A1	Excellent Credit Standing	[0.00% - 0.0002%)	Excellent
A2	Very Good Credit Standing	[0.0002% - 0.008%)	
A3	Good Credit Standing	[0.008% - 0.03%)	
B1	Sound Credit Standing	[0.008% - 0.03%)	
B2	Acceptable Credit Standing	[0.03% - 0,1%)	Strong
B3	Marginal Credit Standing	[0.1% - 0.6%)	
B4	Weak Credit Standing	[0.6% - 2.16%)	Good
B5	Very Weak Credit Standing	[2.16% - 9.95%)	Satisfactory
C	Doubtful/high default risk	[9.95% - 100%)	Substandard
Non- performing			
D	Default	100%	Impaired

Non-retail - Collective Investment Undertakings
31 December 2018

Internal rating grade	Internal rating description	12 month Basel III PD range	Internal rating grade mapping
Performing			
C1	Excellent Credit Standing	[0.00% - 0.055%)	Strong
C2	Very strong Credit Standing	[0.00% - 0.055%)	
C3	Strong Credit Standing	[0.00% - 0.055%)	
C4	Good Credit Standing	[0.00% - 0.055%)	
C5	Quite good Credit Standing	[0.055% - 0.19%)	
C6	Satisfactory Credit Standing	[0.055% - 0.19%)	
C7	Adequate Credit Standing	[0.19% - 2.933%)	Good
C8	Highly questionable Credit Standing	[2.933% - 18.34%)	Satisfactory
C9	Doubtful/high default risk	[18.34% - 100%)	Substandard
Non- performing			
CD	Insolvency, loss	100%	Impaired

Non-retail - Local and Regional Government
31 December 2018

Internal rating grade	Internal rating description	12 month Basel III PD range	Internal rating grade mapping
Performing			
A1	Excellent Credit Standing	[0.00% - 0.08%)	Excellent
A2	Very Good Credit Standing	[0.08% - 0.19%)	Strong
A3	Good Credit Standing	[0.19% - 0.255%)	Good
B1	Sound Credit Standing	[0.255% - 0.47%)	
B2	Acceptable Credit Standing	[0.47% - 0.86%)	
B3	Marginal Credit Standing	[0.86% - 1.59%)	
B4	Weak Credit Standing	[1.59% - 3.98%)	Satisfactory
B5	Very Weak Credit Standing	[3.98% - 18.33%)	
C	Doubtful/high default risk	[18.33% - 100%)	Substandard
Non- performing			
D	Default	100%	Impaired

5. FINANCIAL RISK MANAGEMENT (continued)

Non-performing not defaulted exposure (NPE not defaulted)
Regulation for forborne and non-performing exposures

The regulation for forbearance pursuant to EBA/ITS/2013/03/rev1 from 24th of July 2014 and updated in 10th of March 2015 was implemented at Group level.
For reporting purposes, according to EBA ITS, non-performing exposures are considered those that satisfy at least one of the following conditions:

a) The exposure was classified as default/Stage 3 according to IFRS 9;
b) Performing restructured exposure that was reclassified from non-performing exposure and for which the restructuring measures have been extended during the monitoring time frame;
c) Performing restructured exposure that was reclassified from non-performing exposure and for which number of days past due reached more than 30 days during the monitoring time frame.

Non-retail

For non-retail clients, when terms or loan conditions are modified in favor of the customer, the Group differentiates between normal renegotiation and forborne loans according to the definition of the EBA document “Implementing Technical Standard (ITS) on Supervisory Reporting (Forbearance and non-performing exposures)”. According to EBA definition, non-performing exposure includes exposure without any reason for default according to Article 178 CRR, but has been reclassified from non-performing status and subsequently, during the probationary period as performing restructured, restructuring measures have been extended or 30 days of overdue payment were recorded.

Loans are defined as forborne if the debtor is assessed to have financial difficulties and the modification is assessed as concession. For non-retail customers, financial difficulties are measured by means of an internal early warning system ans assessed by financial and risk analysts.

IFRS 9 requires that impairment losses for Stage 1, 2 and 3 must be derived from an expected loss event. Pursuant to article 178 CRR default continues to be main indicator for Stage 3.

Retail

For retail customers, the restructured loans are subject to probation period for one year in terms of non-performing status extended to the period until the exit criteria is met.

In the case of a non-performing exposure to Micro SME, the non-performing status is is applied at debtor level.

In the case of a non-performing exposure to a PI, all other debtor’s exposures of the same product group shall be considered non-performing (i.e. at product level).

Due to pulling effect, when a PI debtor has on-balance sheet exposures past due more than 90 days, the gross carrying amount of which represents 20% of the gross carrying amount of all its on-balance sheet exposures, all on and off-balance sheet exposures of this debtor shall be considered as non-performing and so the non default facilities might be reclassified as non performing due to contamination at product and debtor level.

c) Liquidity risk

Liquidity risk is generated in the normal course of banking activity being a consequence of the bank’s response to client needs. While depositors need short term access to their funds, borrowers need the possibility to repay the loans in medium to long term timeframes, therefore by responding to these needs the Bank accepts a degree of liquidity risk that has to be actively managed.

5. FINANCIAL RISK MANAGEMENT (continued)

The Management Board defines the liquidity risk strategy based on recommendations made by the units responsible for liquidity and funding management in cooperation with the area responsible for monitoring and controlling of liquidity risk. Management Board approves each year the limits which are applied to measure and control liquidity risk as well as the Bank's funding plan.

The risk tolerance of the Bank represents the foundation of the liquidity risk management framework and is defined:

- for normal business conditions, using a set of limits for the long term liquidity risk profile. The role of the limits is to prevent the accumulation of liquidity risk from current activity of the Bank;
- for stress conditions, tolerance is the Bank's capacity to operate for an acceptable time without significant changes to the strategy or business model.

Treasury and Capital Markets Division function is responsible for the management of liquidity and funding risk of the Bank and Risk Management Division has responsibilities for liquidity risk monitoring and controlling, as defined in the liquidity and funding strategies.

For liquidity management, the Bank analyses, monitors and forecasts the liquidity behaviour of products and business segments and maintain long-term liquidity, including stable deposits, in excess of illiquid assets, at an optimal cost, as defined in the risk appetite.

Diversification of funding profile in terms of investor types, products and instruments is an important element of the liquidity management framework. The core funding resources come from retail clients while other customer's deposits, interbank deposits and borrowings are additional sources of funding. This improves the Bank's flexibility in funding and diminishes the liquidity cost.

The transfer pricing mechanism represents an important instrument for the management of liquidity risks. It covers the balance sheet and off balance sheet elements and is designed to allocate all costs and benefits to the business segments in a way that incentivizes the efficient use of liquidity.

The main tools used for liquidity and funding risk management are:

- the liquidity gap report: used to identify and measure the maturity mismatch between assets and liabilities;
- liquidity scorecard: tool for assessing the robustness of the balance sheet structure (loans to deposits ratio, funding concentration, size of liquid assets in relation to total obligations, etc);
- regulatory liquidity gap: the Bank has to comply with a regulatory liquidity indicator which sets minimum liquidity risk standards at banking system level;
- funding scorecard: the Bank ensures that funding risk is mitigated through the monitoring of several triggers, among which: the concentration in sources of wholesale funding, maturity concentration, the dependence on short term funding and the percentage of unencumbered assets.

At Bank level, there are pre-established trigger levels set for the main tools which are monitored and, in case a breach is observed or anticipated, a specific action plan is taken based on senior management decision.

For stress conditions, the Bank maintains a sufficient liquidity buffer that can be used to compensate the limited access to funding sources and liquidity outflows during stress periods. The Bank determines the necessary liquidity buffer based on stress test analysis. In addition the Bank defines a contingency plan which establishes responsibilities and specific actions that can be taken to strengthen liquidity position on short term and reduce liquidity risk on medium to long term.

5. FINANCIAL RISK MANAGEMENT (continued)

The main tools used for stress conditions are:

- Early warning system: used to monitoring financial markets and internal liquidity indicators in order to anticipate accumulation of risks and potential stress conditions;
- Internal stress test: scenario based analysis used to evaluate Bank's ability to operate in stress conditions;
- Regulatory liquidity coverage ratio: scenario based analysis standardized at banking system level, used to evaluate Bank's ability to operate in stress conditions, as described in CRR/ CRD IV package. According to the standard, banks are required to hold an adequate stock of unencumbered high quality assets (HQLA) to cover potential liquidity outflows in stress conditions.

Group

The financial assets and liabilities analyzed over the remaining period from the balance sheet date to contractual maturity are as at 31 December 2018 as follows:

In RON thousand	Up to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Without maturity	Total
Financial Assets						
Cash and cash with Central Bank	7,197,230	-	-	-	-	7,197,230
Trading assets	7,758	33,990	247,603	9,694	-	299,045
Derivative assets held for risk management	473	-	5,863	2,284	-	8,620
Loans and advances to banks at amortized cost	437,854	-	-	-	-	437,854
Loans and advances to customers at amortised cost	4,693,856	5,299,107	9,889,475	6,261,922	-	26,144,360
Fair value changes of the hedged items-hedge accounting	-	-	-	1,124	-	1,124
Financial assets mandatorily at fair value through profit or loss	83,751	30,616	59,173	206,688	-	380,228
Investment securities at fair value through other comprehensive income	501,012	945,389	1,353,479	404,427	-	3,204,307
Equity instruments at fair value through other comprehensive income	-	-	-	-	48,023	48,023
Investment securities at amortised cost	97,294	363,430	1,095,138	777,505	-	2,333,367
Other assets	-	-	-	-	248,085	248,085
Total financial assets	**13,019,228**	**6,672,532**	**12,650,731**	**7,663,644**	**296,108**	**40,302,243**
Financial Liabilities						
Trading liabilities	6,028	8,011	4,224	59	-	18,322
Derivative liabilities held for risk management	4,114	241	277	2,846	-	7,478
Deposits from banks	528,149	7,921	-	-	-	536,070
Deposits from customers	29,243,689	3,595,882	147,176	64,456	-	33,051,203
Loans from banks and other financial institutions	105,798	273,213	428,969	1,918	-	809,898
Derivatives – Hedge accounting	-	-	-	1,433	-	1,433
Debt securities issued	-	512,458	-	-	-	512,458
Subordinated liabilities	5,519	-	733,561	116,598		855,678
Other liabilities	-	--	-	-	556,812	556,812
Total financial liabilities	**29,893,297**	**4,397,726**	**1,314,207**	**187,310**	**556,812**	**36,349,352**
Maturity surplus/ (shortfall)	**(16,874,069)**	**2,274,806**	**11,336,524**	**7,476,334**	**(260,704)**	**3,952,891**

5. FINANCIAL RISK MANAGEMENT (continued)

The financial assets and liabilities analyzed over the remaining period from 31 December 2017 to contractual maturity are as follows:

In RON thousand	Up to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Without maturity	Total
Financial Assets						
Cash and cash with Central Bank	8,471,977	-	-	-	-	8,471,977
Trading assets	9,090	14,777	51,491	10,940	-	86,298
Derivative assets held for risk management	23,450	2,303	7,438	2,046	-	35,237
Loans and advances to banks	89,168	-	-	-	-	89,168
Loans and advances to customers	2,869,409	4,519,446	9,192,297	5,580,122	-	22,161,274
Investment securities	979,449	1,012,929	2,671,036	552,856	33,544	5,249,814
Other assets	-	-	-	-	243,078	243,078
Total financial assets	**12,442,543**	**5,549,455**	**11,922,262**	**6,145,964**	**276,622**	**36,336,846**
Financial Liabilities						
Trading liabilities	8,361	9,631	10,221	1,078	-	29,291
Derivative liabilities held for risk management	21,621	25,912	3,245	66	-	50,844
Deposits from banks	500,439	-	7,850	-	-	508,289
Deposits from customers	25,899,848	3,549,750	212,891	33,510	-	29,695,999
Loans from banks and other financial institutions	118,867	291,650	515,546	5,895	-	931,958
Debt securities issued	-	16,613	495,888	-	-	512,501
Subordinated liabilities	5,791	116,483	726,743	-	-	849,017
Other liabilities	-	-	-	-	490,927	490,927
Total financial liabilities	**26,554,927**	**4,010,039**	**1,972,384**	**40,549**	**490,927**	**33,068,826**
Maturity surplus/ (shortfall)	**(14,112,384)**	**1,539,416**	**9,949,878**	**6,105,415**	**(214,305)**	**3,268,020**

5. FINANCIAL RISK MANAGEMENT (continued)

Bank

The financial assets and liabilities analyzed over the remaining period from the balance sheet date to contractual maturity are as of 31 December 2018 as follows:

In RON thousand	Up to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Without maturity	Total
Financial Assets						
Cash and cash with Central Bank	7,197,222	-	-	-	-	7,197,222
Trading assets	7,639	33,990	247,603	9,694	-	298,926
Derivative assets held for risk management	473	-	5,863	2,284	-	8,620
Loans and advances to banks at amortised cost	435,126	-	-	-	-	435,126
Loans and advances to customers at amortised cost	4,596,188	5,065,158	9,485,407	6,243,216	-	25,389,969
Fair value changes of the hedged items-hedge accounting	-	-	-	1,124	-	1,124
Financial assets mandatorily at fair value through profit or loss	72,031	30,616	59,173	206,688	-	368,508
Investment securities	-	-	-	-	-	-
Investment securities at fair value through other comprehensive income	501,012	945,389	1,353,479	404,427	-	3,204,307
Equity instruments at fair value through other comprehensive income	-	-	-	-	48,023	48,023
Investment securities at amortised cost	90,921	360,812	1,078,833	777,505	-	2,308,071
Other assets	-	-	-	-	223,689	223,689
Total financial assets	**12,900,612**	**6,435,965**	**12,230,358**	**7,644,938**	**271,712**	**39,483,585**
Financial Liabilities						
Trading liabilities	6,028	8,011	4,224	59	-	18,322
Derivative liabilities held for risk management	4,114	241	277	2,846	-	7,478
Deposits from banks	528,149	7,921	-	-	-	536,070
Deposits from customers	29,281,807	3,600,134	147,176	64,456	-	33,093,573
Loans from banks and other financial institutions	19,737	43,809	42,810	1,918	-	108,274
Derivatives – Hedge accounting	-	-	-	1,433	-	1,433
Debt securities issued	0	516,179	-	-	-	516,179
Subordinated liabilities	5,519	-	733,561	116,598	-	855,678
Other liabilities	-	-	-	-	550,918	550,918
Total financial liabilities	**29,845,354**	**4,176,295**	**928,048**	**187,310**	**550,918**	**35,687,925**
Maturity surplus/ (shortfall)	**(16,944,742)**	**2,259,670**	**11,302,310**	**7,457,628**	**(279,206)**	**3,795,660**

5. FINANCIAL RISK MANAGEMENT (continued)

The financial assets and liabilities analyzed over the remaining period from the balance sheet date to contractual maturity are as of 31 December 2017 as follows:

In RON thousand	Up to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Without maturity	Total
Financial Assets						
Cash and cash with Central Bank	8,471,851	-	-	-	-	8,471,851
Trading assets	9,567	14,777	51,491	10,940	-	86,775
Derivative assets held for risk management	23,450	2,303	7,438	2,046	-	35,237
Loans and advances to banks	85,641	-	-	-	-	85,641
Loans and advances to customers	2,758,230	4,306,067	8,796,058	5,562,577	-	21,422,932
Investment securities	958,879	999,884	2,665,336	552,851	33,544	5,210,494
Other assets	-	-	-	-	225,116	225,116
Total financial assets	**12,307,618**	**5,323,031**	**11,520,323**	**6,128,414**	**258,660**	**35,538,046**
Financial Liabilities						
Trading liabilities	8,673	9,631	10,221	1,078	-	29,603
Derivative liabilities held for risk management	21,183	25,751	3,245	66	-	50,245
Deposits from banks	500,439	-	7,850	-	-	508,289
Deposits from customers	25,940,597	3,549,750	212,891	33,510	-	29,736,748
Loans from banks and other financial institutions	40,243	87,058	107,404	5,895	-	240,600
Debt securities issued	-	16,734	499,489	-	-	516,223
Subordinated liabilities	5,791	116,483	726,743	-	-	849,017
Other liabilities	-	-	-	-	486,147	486,147
Total financial liabilities	**26,516,926**	**3,805,407**	**1,567,843**	**40,549**	**486,147**	**32,416,872**
Maturity surplus/ (shortfall)	**(14,209,308)**	**1,517,624**	**9,952,480**	**6,087,865**	**(227,487)**	**3,121,174**

Usually, the most significant liquidity gap is registered in the first interval (up to 3 months) mainly due to non-banking customers, which prefer short term maturities for deposits and long term maturities for loans. This behaviour that determines a negative gap in the first interval generates a positive gap on the other intervals (higher than 3 months). In practice the negative gap in the first bucket does not represent outflows as most customer deposits are rolled over or replaced by new deposits.

Also the Group securities portfolio can be turned to cash (repo or sale) in a short time representing thus a buffer that diminishes the liquidity risk in the first bucket.

The negative liquidity gap on the first bucket has increased in 2018 by RON 2,735,434 thousands versus 2017, being generated by the increase in customer deposits, higher in 2018 by RON 3,341,210 thousand.

In regard to the other buckets, the increase by RON 1,349,830 thousands in the 1 – 5 years bucket and by RON 1,369,763 in over 5 years bucket is mainly due to increase in loans and advances to customers by RON 1,349,830 thousands in 1-5 years time band and RON 1,369,763 thousands in over 5 years time band, but also due to higher investment securities by RON 836,893 thousands with maturity over 5 years.

5. FINANCIAL RISK MANAGEMENT (continued)

The amounts disclosed in the below table represent contractual maturity analysis for financial liabilities disclosed in accordance with IFRS 7 whereby the undiscounted cash flows to be shown in these predefined maturity-bands differ from the amounts included in the balance sheet because the balance sheet amount is based on discounted cash flows.

Group

Financial liabilities analyzed over the remaining period from the reporting date by using undiscounted cash flows as of 31 December 2018 are as follows:

In RON thousand	Up to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
Financial Liabilities					
Net settled trading liabilities	4	7	6	-	17
Gross settled trading liabilities	1,089,823	1,047,927	-	-	2,137,750
Net settled derivative liabilities held for risk management	1,414	1,004	1,174	-	3,592
Gross settled derivative liabilities held for risk management	733,735	-	-	-	733,735
Deposits from banks	528,188	9,036	-	-	537,224
Deposits from customers	29,271,216	3,582,125	227,275	38,034	33,118,650
Loans from banks	78,786	230,986	485,010	21,300	816,082
Debt securities issued	-	523,166	-	-	523,166
Subordinated liabilities	10,278	31,018	789,988	122,988	954,272
Other financial guarantees	22,582	50,973	35,139	2,989	111,683
Total financial liabilities	**31,736,026**	**5,476,242**	**1,538,592**	**185,311**	**38,936,171**

Financial liabilities analyzed over the remaining period from the balance sheet date by using undiscounted cash flows as of 31 December 2017 are as follows:

In RON thousand	Up to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
Financial Liabilities					
Net settled trading liabilities	1,729	5,235	4,297	-	11,261
Gross settled trading liabilities	1,578,364	1,258,826	-	-	2,837,190
Net settled derivative liabilities held for risk management	12	587	598	-	1,197
Gross settled derivative liabilities held for risk management	11,122,767	3,708,047	-	-	14,830,814
Deposits from banks	500,455	-	8,196	-	508,651
Deposits from customers	25,937,679	3,554,670	214,323	33,650	29,740,322
Loans from banks	40,252	87,378	107,542	5,895	241,067
Debt securities issued	-	26,770	523,147	-	549,917
Subordinated liabilities	10,409	147,169	799,925	-	957,503
Other financial guarantees	19,111	25,815	31,943	3,685	80,554
Total financial liabilities	**39,210,778**	**8,814,497**	**1,689,971**	**43,230**	**49,758,476**

5. FINANCIAL RISK MANAGEMENT (continued)

Bank

Financial liabilities analyzed over the remaining period from the reporting date by using undiscounted cash flows as of 31 December 2018 are as follows:

In RON thousand	Up to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
Financial Liabilities					
Net settled trading liabilities	3	7	6	-	16
Gross settled trading liabilities	1,093,283	1,056,603	-	-	2,149,886
Net settled derivative liabilities held for risk management	1,414	1,004	1,174	-	3,592
Gross settled derivative liabilities held for risk management	733,735	-	-	-	733,735
Deposits from banks	528,188	9,036	-	-	537,224
Deposits from customers	29,309,335	3,586,377	227,275	38,034	33,161,021
Loans from banks	6,503	43,834	42,818	21,301	114,456
Debt securities issued	-	526,886	-	-	526,886
Subordinated liabilities	10,278	31,018	789,988	122,988	954,272
Other financial guarantees	22,582	50,973	35,139	2,989	111,683
Total financial liabilities	**31,705,321**	**5,305,738**	**1,096,400**	**185,312**	**38,292,771**

Financial liabilities analyzed over the remaining period from the reporting date by using undiscounted cash flows as of 31 December 2017 are as follows:

In RON thousand	Up to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
Financial Liabilities					
Net settled trading liabilities	1,728	5,235	4,297	-	11,260
Gross settled trading liabilities	1,578,364	1,267,502	-	-	2,845,866
Net settled derivative liabilities held for risk management	12	587	598	-	1,197
Gross settled derivative liabilities held for risk management	11,122,767	3,708,047	-	-	14,830,814
Deposits from banks	500,455	-	8,196	-	508,651
Deposits from customers	25,942,032	3,554,670	214,323	33,650	29,744,675
Loans from banks	40,251	87,378	107,542	5,896	241,067
Debt securities issued	-	26,891	526,750	-	553,641
Subordinated liabilities	10,409	147,169	799,925	-	957,503
Other financial guarantees	19,111	25,815	31,943	3,685	80,554
Total financial liabilities	**39,215,129**	**8,823,294**	**1,693,574**	**43,231**	**49,775,228**

5. FINANCIAL RISK MANAGEMENT (continued)

d) Market risk

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and others will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

The Group separates its exposure to market risk between trading and non-trading portfolios. The principal tool used to measure and control market risk exposure within the Group's trading portfolios is Value at Risk (VaR).

The VaR of a trading portfolio is the maximum estimated loss that can arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). In 2018, the VaR model used by the Group is based upon a 99% confidence level and assumes a 1 day holding period.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to some limitations, including the following:

- A 1 day holding period assumes that it is possible to hedge or dispose of positions within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations when there is severe market illiquidity for a prolonged period;
- A 99% confidence level does not reflect losses that may occur beyond this level. Even within the used model there is a 1% probability that losses could exceed the VaR;
- VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day;
- The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature;

The Group uses VaR limits for total market risk and for individual foreign exchange and interest rate risk. The overall structure of VaR limits is subject to review and approval by the Assets and Liabilities Committee (ALCO). VaR is calculated on a daily basis. Reports including VaR limits utilization are submitted daily to Group management and monthly summaries are submitted to ALCO.

A summary of the VaR position of the Group's trading portfolios at December 31, 2018 and 2017 and during the period is as follows (trading portfolio includes trading assets and trading liabilities as well as the overall FX position of the Group):

In RON thousand	**At 31 December**	**Average Risk**	**Maximum Risk**	**Minimum Risk**
2018				
Foreign currency risk*	2,025	413	2,025	36
Interest-rate risk	551	568	1,298	167
Total	**2,576**	**981**	**3,350**	**203**
2017				
Foreign currency risk*	669	427	1,046	25
Interest-rate risk	360	1,014	5,982	113
Total	**1,029**	**1,441**	**7,028**	**138**

* Foreign currency risk is calculated based on the overall foreign exchange position of the Group

5. FINANCIAL RISK MANAGEMENT (continued)

A summary of the VaR position of the Bank's trading portfolios at December 31, 2018 and 2017 and during the period is as follows (trading portfolio includes trading assets and trading liabilities as well as the overall FX position of the Bank):

In RON thousand	At 31 December	Average Risk	Maximum Risk	Minimum Risk
2018				
Foreign currency risk*	1,958	412	1,958	36
Interest-rate risk	551	568	1,298	167
Total	**2,509**	**980**	**3,256**	**203**
2017				
Foreign currency risk*	642	427	1,046	25
Interest-rate risk	360	1,014	5,982	113
Total	**1,002**	**1,441**	**7,028**	**138**

* Foreign currency risk is calculated based on the overall foreign exchange position of the Bank

Exposure to interest rate risk for non-trading portfolios

The main risk to which non-trading portfolios are exposed is the interest rate risk. Interest rate risk represents the risk of loss due to adverse and unexpected movements in interest rates. On one side interest rate movements influence bank's earnings by affecting the net interest rate revenues (earnings perpective). On the other side movements in interest rates also affect the economic value of banks's assest, liabilities and off balance sheet items as the present value of future cash flows (and even the actual cash flows) may change following interest rate movements (economic value perspective). Interest rate risk is principally managed by monitoring the interest rate gap and a set of pre-approved limits. ALCO is the monitoring body for compliance with these limits and is assisted by Risk Management in its day-to-day monitoring activities.
The derivative financial instruments used by the Group to reduce the interest rate risk include swaps that fluctuate in value depending on the interest rates variations.

The swaps are over the counter market commitments and are traded between the Group and third parties with the purpose of exchanging future cash flows on agreed amounts. Through interest rate swaps, the Group agrees to exchange with third parties, at determined time intervals the difference between the fixed and variable interest rates.

5. FINANCIAL RISK MANAGEMENT (continued)

A summary of the Group's interest rate gap position on non-trading portfolios as at 31 December 2018 is as follows:

In RON thousand	Less than 3 months	3 – 12 months	1 – 5 years	Over 5 years	Without maturity	Total
Assets						
Cash and cash with Central Bank	5,201,642	-	-	-	1,995,588	7,197,230
Loans and advances to banks at amortised cost	437,854	-	-	-	-	437,854
Financial assets mandatorily at fair value through profit or loss	251,398	112,663	15,872	295	-	380,228
Loans and advances to customers at amortised cost	17,891,432	3,978,661	3,748,719	525,548	-	26,144,360
Investment securities at fair value through other comprehensive income	750,634	1,061,861	1,275,165	116,647	-	3,204,307
Investment securities at amortised cost	140,473	356,893	1,073,666	762,335	-	2,333,367
	24,673,433	**5,510,078**	**6,113,422**	**1,404,825**	**1,995,588**	**39,697,346**
Liabilities						
Deposits from banks	529,157	6,913	-	-	-	536,070
Deposits from customers	17,218,023	6,109,480	9,708,652	15,048	-	33,051,203
Loans from banks and other financial institutions	561,814	73,442	172,724	1,918	-	809,898
Debt securities issued	-	512,458	-	-	-	512,458
Subordinated liabilities	739,080	-	-	116,598	-	855,678
	19,048,074	**6,702,293**	**9,881,376**	**133,564**	**-**	**35,765,307**
Effect of derivatives held for risk management purposes	407,674	(46,639)	(113,317)	(240,983)	-	6,735
Net position	**6,033,033**	**(1,238,854)**	**(3,881,271)**	**1,030,278**	**1,995,588**	**3,938,774**

A summary of the Group's interest rate gap position on non-trading portfolios as at 31 December 2017 is as follows:

In RON thousand	Less than 3 months	3 – 12 months	1 – 5 years	Over 5 years	Without maturity	Total
Assets						
Cash and cash with Central Bank	6,391,893	-	-	-	2,080,084	8,471,977
Loans and advances to banks	89,168	-	-	-	-	89,168
Loans and advances to customers	14,701,947	4,931,736	2,403,821	123,770	-	22,161,274
Investment securities	1,319,727	1,154,567	2,538,119	237,401	-	5,249,814
	22,502,735	**6,086,303**	**4,941,940**	**361,171**	**2,080,084**	**35,972,233**
Liabilities						
Deposits from banks	501,239	-	7,050	-	-	508,289
Deposits from customers	15,501,332	5,848,909	8,342,837	2,921	-	29,695,999
Loans from banks and other financial institutions	690,170	85,701	150,191	5,896	-	931,958
Debt securities issued	-	16,808	495,693	-	-	512,501
Subordinated liabilities	849,017	-	-	-	-	849,017
	17,541,758	**5,951,418**	**8,995,771**	**8,817**	**-**	**32,497,764**
Effect of derivatives held for risk management purposes	289,922	(22,080)	(172,214)	(87,945)	-	7,683
Net position	**5,250,899**	**112,805**	**(4,226,045)**	**264,409**	**2,080,084**	**3,482,152**

5. FINANCIAL RISK MANAGEMENT (continued)

A summary of the Bank's interest rate gap position on non-trading portfolios as at 31 December 2018 is as follows:

In RON thousand	**Less than 3 months**	**3 – 12 months**	**1 – 5 years**	**Over 5 years**	**Without maturity**	**Total**
Assets						
Cash and cash with Central Bank	5,201,634	-	-	-	1,995,588	7,197,222
Loans and advances to banks at amortised cost	435,126	-	-	-	-	435,126
Financial assets mandatorily at fair value through profit or loss	239,679	112,663	15,872	294	-	368,508
Loans and advances to customers at amortised cost	17,413,375	3,895,493	3,555,641	525,460	-	25,389,969
Investment securities at fair value through other comprehensive income	750,634	1,061,861	1,275,165	116,647	-	3,204,307
Investment securities at amortised cost	134,138	354,237	1,057,361	762,335		2,308,071
	24,174,586	**5,424,254**	**5,904,039**	**1,404,736**	**1,995,588**	**38,903,203**
Liabilities						
Deposits from banks	529,157	6,913	-	-	-	536,070
Deposits from customers	17,260,393	6,109,480	9,708,652	15,048	-	33,093,573
Loans from banks and other financial institutions	45,001	27,026	34,329	1,918	-	108,274
Debt securities issued	-	516,179	-	-	-	516,179
Subordinated liabilities	739,080	-	-	116,598	-	855,678
	18,573,631	**6,659,598**	**9,742,981**	**133,564**	**-**	**35,109,774**
Effect of derivatives held for risk management purposes	407,674	(46,639)	(113,317)	(240,983)	-	6,735
Net position	**6,008,629**	**(1,281,983)**	**(3,952,259)**	**1,030,189**	**1,995,588**	**3,800,164**

A summary of the Bank's interest rate gap position on non-trading portfolios as at 31 December 2017 is as follows:

In RON thousand	**Less than 3 months**	**3 – 12 months**	**1 – 5 years**	**Over 5 years**	**Without maturity**	**Total**
Assets						
Cash and cash with Central Bank	6,391,767	-	-	-	2,080,084	8,471,851
Loans and advances to banks	85,641	-	-	-	-	85,641
Loans and advances to customers	14,166,044	4,866,328	2,266,799	123,761	-	21,422,932
Investment securities	1,299,323	1,141,473	2,532,297	237,401	-	5,210,494
	21,942,775	**6,007,801**	**4,799,096**	**361,161**	**2,080,084**	**35,190,917**
Liabilities						
Deposits from banks	501,239	-	7,050	-	-	508,289
Deposits from customers	15,542,081	5,848,909	8,342,837	2,921	-	29,736,748
Loans from banks and other financial institutions	99,934	61,570	73,201	5,895	-	240,600
Debt securities issued	-	16,929	499,294	-	-	516,223
Subordinated liabilities	849,017	-	-	-	-	849,017
	16,992,271	**5,927,408**	**8,922,381**	**8,817**	**-**	**31,850,877**
Effect of derivatives held for risk management purposes	289,922	(22,080)	(172,214)	(87,945)	-	7,683
Net position	**5,240,426**	**58,313**	**(4,295,499)**	**264,399**	**2,080,084**	**3,347,723**

5. FINANCIAL RISK MANAGEMENT (continued)

The management of interest rate risk through the set of interest rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various standard and non-standard interest rate scenarios. From the economic value perspective the standard scenarios include a 200 basis point (bp) parallel shift in the yield curve for all currencies and all maturities.

The sensitivity scenarios calculate the change in the economic value of the banking book interest rate sensitive assets and liabilities of the Bank under the assumption that interest rates change according to the each of the scenarios mentioned above. Under each scenario the sensitivity result is calculated by comparing the present value of the banking book under stress scenario with the present value calculated using the base interest rate curve. The present value of the banking book asset and liabilities is calculated by discounting future cash flows generated by interest rate sensitive assets and liabilities which are distributed on repricing gaps according to next reset date – in case of floating rate instruments – or according to maturity date – in case of fixed rate instruments.

An analysis of the Group's sensitivity of the economic value of banking book assets and liabilities to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant balance sheet position) is as follows:

In RON thousand	**200 bp**	**200 bp**
	Increase	**Decrease**
At 31 December 2018	**115,762**	**(119,841)**
Average for the period	146,549	(153,947)
Minimum for the period	115,762	(119,841)
Maximum for the period	199,581	(207,838)
At 31 December 2017	**155,610**	**(167,520)**
Average for the period	154,630	(163,800)
Minimum for the period	140,223	(148,029)
Maximum for the period	168,947	(180,095)

An analysis of the Bank's sensitivity to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant balance sheet position) is as follows:

In RON thousand	**200 bp**	**200 bp**
	Increase	**Decrease**
At 31 December 2018	**116,737**	**(120,900)**
Average for the period	145,791	(154,713)
Minimum for the period	116,737	(120,900)
Maximum for the period	193,992	(208,151)
At 31 December 2017	**156,103**	**(168,038)**
Average for the period	154,717	(164,573)
Minimum for the period	140,878	(148,719)
Maximum for the period	169,605	(180,787)

5. FINANCIAL RISK MANAGEMENT (continued)

According to EBA requirements (EBA/GL/2015/08), measurement and monitoring of interest rate risk in the banking book is done based on two approaches: economic value and net interest income (NII) volatility.

In order to assess the impact of interest rate changes on net interest income, a set of scenarios and assumptions are defined and used to measure net interest income volatility and potential losses.
The assessment is made using a constant balance sheet, i.e. each maturing item is replaced by an item with similar characteristics, over a 12-month period and an instantaneous shock.

The impact of interest rate shocks on net interest income for 2017 is presented below:

In RON million

Applied shock on Net Interest Income*	2018	2017
Parallel +200bp	222	217
Parallel -200bp	(335)	(266)
Steepening 5Y +200bp	23	25
Flattening 5Y -200bp	(33)	(28)
Flattening 1D +200bp	198	192
Steepening 1D -200bp	(296)	(233)
Maximum positive impact in 2018	266	273
Maximum negative impact in 2018	(402)	(316)

*The change in projected Net Interest Income over a forward-looking rolling 12-month period, using a constant balance sheet assumption and an instantaneous shock.

The interest rates related to the local currency and the major foreign currencies as at 31 December 2018 and 2017 were as follows:

Currencies	Interest rate	31 December 2018	31 December 2017
RON	ROBOR 3 months	3.02%	2.05%
EUR	EURIBOR 3 months	-0.31%	-0.33%
EUR	EURIBOR 6 months	-0.24%	-0.27%
USD	LIBOR 6 months	2.88%	1.84%

The following table shows the average interest rates per annum obtained or offered by the Group for its interest-bearing assets and liabilities during the 2018 financial year:

	Average interest rate		
	RON	EUR	USD
Assets			
Current accounts with National Bank of Romania	0.14%	0.02%	0.10%
Trading assets	3.61%	1.47%	5.58%
Loans and advances to banks at amortised cost	2.06%	-0.44%	1.83%
Investment securities at fair value through other comprehensive income	2.35%	0.59%	N/A
Investment securities at amortised cost	2.93%	2.24%	N/A
Loans and advances to customers at amortised cost	5.50%	1.82%	2.71%
Financial assets mandatorily at fair value through profit or loss	4.83%	5.69%	N/A
Liabilities			
Deposits from banks	1.67%	0.60%	2.94%
Deposits from customers	0.48%	0.31%	0.06%
Loans from banks and other financial institutions	4.42%	0.21%	N/A
Subordinated liabilities	N/A	4.76%	N/A

TRANSLATOR'S EXPLANATORY NOTE: The above translation of the consolidated and separate financial statements is provided as a free translation from Romanian which is the official and binding version.

5. FINANCIAL RISK MANAGEMENT (continued)

The following table shows the interest rates per annum obtained or offered by the Group for its interest-bearing assets and liabilities during the 2017 financial year:

	Average interest rate		
	RON	EUR	USD
Assets			
Current accounts with National Bank of Romania	0.09%	0.04%	0.07%
Trading assets	3.90%	0.72%	1.86%
Loans and advances to banks	0.65%	-0.44%	0.95%
Investment securities	1.96%	4.09%	1.80%
Loans and advances to customers	6.52%	3.66%	3.99%
Liabilities			
Deposits from banks	0.53%	0.96%	1.59%
Deposits from customers	0.33%	0.40%	0.12%
Loans from banks and other financial institutions	3.66%	0.85%	N/A
Subordinated liabilities	N/A	4.81%	N/A

The following table shows the average interest rates per annum obtained or offered by the Bank for its interest-bearing assets and liabilities during the 2018 financial year:

	Average interest rate		
	RON	EUR	USD
Assets			
Current accounts with National Bank of Romania	0.14%	0.02%	0.10%
Trading assets	3.61%	1.47%	5.58%
Loans and advances to banks at amortised cost	2.06%	-0.44%	1.83%
Investment securities at fair value through other comprehensive income	2.35%	0.59%	N/A
Investment securities at amortised cost	2.93%	2.24%	N/A
Loans and advances to customers at amortised cost	5.50%	1.82%	2.71%
Financial assets mandatorily at fair value through profit or loss	4.83%	5.69%	N/A
Liabilities			
Deposits from banks	1.67%	0.60%	2.94%
Deposits from customers	0.48%	0.31%	0.06%
Loans from banks and other financial institutions	4.42%	0.21%	N/A
Subordinated liabilities	N/A	4.76%	N/A

The following table shows the interest rates per annum obtained or offered by the Bank for its interest-bearing assets and liabilities during the 2017 financial year:

	Average interest rate		
	RON	EUR	USD
Assets			
Current accounts with National Bank of Romania	0.09%	0.04%	0.07%
Trading assets	3.90%	0.72%	1.86%
Loans and advances to banks	0.65%	-0.44%	0.95%
Investment securities	1.96%	4.09%	1.80%
Loans and advances to customers	6.52%	3.66%	3.99%
Liabilities			
Deposits from banks	0.53%	0.96%	1.59%
Deposits from customers	0.33%	0.40%	0.12%
Loans from banks and other financial institutions	3.66%	0.85%	N/A
Subordinated liabilities	N/A	4.81%	N/A

5. FINANCIAL RISK MANAGEMENT (continued)

Exposure to currency risk

The Group is exposed to currency risk due to transactions in foreign currencies. There is also a balance sheet risk that the net monetary assets in foreign currencies will take a lower value when translated into RON as a result of currency movements or net monetary liabilities in foreign currencies will take a higher value as a result of these currency movements.

Group

The monetary assets and liabilities held in RON and in foreign currencies at 31 December 2018 are presented below:

In RON thousand	RON	USD	EUR	OTHER	Total
Monetary assets					
Cash and cash with Central Bank	3,675,096	31,594	3,457,822	32,718	7,197,230
Trading assets	178,607	0	120,438	0	299,045
Derivative assets held for risk management	0	0	8,620	0	8,620
Loans and advances to banks at amortised cost	49,564	20,269	365,239	2,782	437,854
Loans and advances to customers at amortised cost*	17,177,324	509,076	7,963,168	494,792	26,144,360
Financial assets mandatorily at fair value through profit or loss	321,821	0	16,159	42,248	380,228
Investment securities at amortised cost	1,504,258	45,044	783,822	243	2,333,367
Investment securities at fair value through other comprehensive income	2,541,116	114,577	548,614	0	3,204,307
Equity instruments at fair value through other comprehensive income	14,133	33,890	0	0	48,023
Fair value changes of the hedged items-Hedge accounting	0	0	1,124	0	1,124
Investment in subsidiaries, associates and joint ventures	24,980	0	0	0	24,980
Tax receivable	0	0	0	0	0
Other assets	183,468	4,505	59,417	695	248,085
Total monetary assets	**25,670,367**	**758,955**	**13,324,423**	**573,478**	**40,327,223**
Monetary liabilities					
Trading liabilities	11,763	0	6,559	0	18,322
Derivative liabilities held for risk management	2,620	1,424	1,209	2,225	7,478
Deposits from banks	513,860	2,843	17,983	1,384	536,070
Deposits from customers	20,895,457	1,437,901	10,473,859	243,986	33,051,203
Loans from banks and other financial institutions	31,095	0	778,784	19	809,898
Derivatives – hedge accounting	0	0	1,433		1,433
Debt securities issued	512,458	0	0	0	512,458
Subordinated liabilities	0	0	681,759	173,919	855,678
Other liabilities	350,388	57,815	142,712	5,898	556,813
Total monetary liabilities	**22,317,641**	**1,499,983**	**12,104,298**	**427,431**	**36,349,353**
Net currency position	**3,352,726**	**-741,028**	**1,220,125**	**146,047**	**3,977,870**

* Other currencies include mainly loans and advances to customers in CHF.

5. FINANCIAL RISK MANAGEMENT (continued)

Group

The monetary assets and liabilities held in RON and in foreign currencies at 31 December 2017 are presented below:

In RON thousand	RON	USD	EUR	OTHER	Total
Monetary assets					
Cash and cash with Central Bank	4,950,531	30,999	3,447,952	42,495	8,471,977
Trading assets	58,745	1,936	25,617	-	86,298
Derivative assets held for risk management	23,801	-	11,436	-	35,237
Loans and advances to banks	27,573	6,447	48,866	6,282	89,168
Loans and advances to customers*	14,431,593	551,862	6,543,078	634,741	22,161,274
Investment securities	4,010,332	156,068	1,083,190	224	5,249,814
Investment in subsidiaries, associates and joint ventures	23,911	-	-	-	23,911
Tax receivable	541	-	-	-	541
Other assets	183,146	1,116	57,885	937	243,084
Total monetary assets	**23,710,173**	**748,428**	**11,218,024**	**684,679**	**36,361,304**
Monetary liabilities					
Trading liabilities	15,847	1,794	11,650	-	29,291
Derivative liabilities held for risk management	3,407	-	43,317	4,120	50,844
Deposits from banks	478,983	8,126	20,900	280	508,289
Deposits from customers	18,686,237	1,471,388	9,261,366	277,008	29,695,999
Loans from banks and other financial institutions	195,928	-	736,013	17	931,958
Debt securities issued	512,501	-	-	-	512,501
Subordinated liabilities	-	-	681,374	167,643	849,017
Other liabilities	258,541	46,219	180,732	5,437	490,929
Total monetary liabilities	**20,151,444**	**1,527,527**	**10,935,352**	**454,505**	**33,068,828**
Net currency position	**3,558,729**	**(779,099)**	**282,672**	**230,174**	**3,292,476**

* Other currencies include mainly loans and advances to customers in CHF.

5. FINANCIAL RISK MANAGEMENT (continued)

Bank

The monetary assets and liabilities held in RON and in foreign currencies at 31 December 2018 are presented below:

In RON thousand	RON	USD	EUR	OTHER	Total
Monetary assets					
Cash and cash with Central Bank	3,675,088	31,594	3,457,822	32,718	7,197,222
Trading assets	178,488	0	120,438	0	298,926
Derivative assets held for risk management	0	0	8,620	0	8,620
Loans and advances to banks at amortised cost	48,919	20,269	363,316	2,622	435,126
Loans and advances to customers at amortised cost*	17,141,450	509,076	7,244,651	494,792	25,389,969
Financial assets mandatorily at fair value through profit or loss	310,101	0	16,159	42,248	368,508
Investment securities at amortised cost	1,484,694	45,044	778,334	0	2,308,072
Investment securities at fair value through other comprehensive income	2,541,116	114,577	548,614	0	3,204,307
Equity instruments at fair value through other comprehensive income	14,133	33,890	0	0	48,023
Fair value changes of the hedged items- Hedge accounting	0	0	1,124	0	1,124
Investment in subsidiaries, associates and joint ventures	105,349	0	0	0	105,349
Other assets	167,614	4,505	51,232	337	223,688
Total monetary assets	**25,666,952**	**758,955**	**12,590,310**	**572,717**	**39,588,934**
Monetary liabilities					
Trading liabilities	11,763	0	6,559	0	18,322
Derivative liabilities held for risk management	2,620	1,424	1,209	2,225	7,478
Deposits from banks	513,860	2,843	17,983	1,384	536,070
Deposits from customers	20,915,086	1,437,957	10,496,544	243,986	33,093,573
Loans from banks and other financial institutions	72,843	0	35,412	19	108,274
Derivatives – Hedge accounting	0	0	1,433		1,433
Debt securities issued	516,179	0	0	0	516,179
Subordinated liabilities	0	0	681,759	173,919	855,678
Other liabilities	344,668	57,815	142,712	5,723	550,918
Total monetary liabilities	**22,377,019**	**1,500,039**	**11,383,611**	**427,256**	**35,687,925**
Net currency position	**3,289,933**	**-741,084**	**1,206,699**	**145,461**	**3,901,009**

* Other currencies include mainly loans and advances to customers in CHF.

5. FINANCIAL RISK MANAGEMENT (continued)

Bank

The monetary assets and liabilities held in RON and in foreign currencies at 31 December 2017 are presented below:

In RON thousand	RON	USD	EUR	OTHER	Total
Monetary assets					
Cash and cash with Central Bank	4,950,405	30,999	3,447,952	42,495	8,471,851
Trading assets	59,222	1,936	25,617	-	86,775
Derivative assets held for risk management	23,801	-	11,436	-	35,237
Loans and advances to banks	27,516	6,447	47,698	3,980	85,641
Loans and advances to customers*	14,323,809	551,862	5,912,521	634,740	21,422,932
Investment securities	3,984,496	156,068	1,069,930	-	5,210,494
Investment in subsidiaries, associates and joint ventures	105,379	-	-	-	105,379
Other assets	171,833	1,116	51,655	511	225,115
Total monetary assets	**23,646,461**	**748,428**	**10,566,809**	**681,726**	**35,643,424**
Monetary liabilities					
Trading liabilities	16,159	1,794	11,650	-	29,603
Derivative liabilities held for risk management	3,299	-	42,826	4,120	50,245
Deposits from banks	478,983	8,126	20,900	280	508,289
Deposits from customers	18,702,498	1,471,411	9,285,831	277,008	29,736,748
Loans from banks and other financial institutions	163,740	-	76,842	18	240,600
Debt securities issued	516,223	-	-	-	516,223
Subordinated liabilities	-	-	681,374	167,643	849,017
Other liabilities	254,016	46,219	179,936	5,975	486,146
Total monetary liabilities	**20,134,918**	**1,527,550**	**10,299,359**	**455,044**	**32,416,871**
Net currency position	**3,511,543**	**(779,122)**	**267,450**	**226,682**	**3,226,553**

* Other currencies include mainly loans and advances to customers in CHF.

Derivative financial instruments used by the Group to mitigate currency risk include foreign exchange swaps.

e) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure and from external factors other than credit, market and liquidity risk, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Group's operations and are faced by all business entities.This definition includes legal risk, but excludes strategic and reputational risk.

Legal risk is a component of the operational risk and is defined as the risk due to non(observance of the legal or statutory requirements and/or inaccurately drafted contracts and their execution due to lack of diligence in applying the respective law or a delay in reacting to changes in legal framework conditions.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

5. FINANCIAL RISK MANAGEMENT (continued)

The main responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorization of transactions;
- Requirement for inclusion of operational risk responsibilities in each job position;
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Documentation of controls and procedures;
- Requirements for the periodic assessment of operational risk faced by the Group, and the adequacy of controls and procedures to address the risks identified;
- Requirements for the reporting of operational losses and proposed remedial action;
- Development of contingency plans;
- Training and professional development;
- Ethical and business standards;
- Risk mitigation, including insurance where this is effective.

f) Capital management

The National Bank of Romania (NBR) regulates and monitors the capital requirements at individual level and at group level.

Regulation (EU) no 575/2013 of the European Parliament and of the Council requires that the Group maintain a minimum Common Equity Tier 1 capital ratio of 4.5%, a minimum Tier 1 capital ratio of 6% and a minimum total capital ratio of 8%. The capital adequacy ratio is calculated dividing total Group's own funds to the total risk weighted assets (Note 43).

Capital allocation

a) Credit risk: Starting with July 1st, 2009, the method for the risk weighted assets applied by the Group is internal ratings based approach for Raiffeisen Bank non-retail exposures. Starting with December 1st, 2013, Raiffeisen Bank received National Bank of Romania approval for calculating capital requirements for credit risk related to retail portfolio using advanced internal ratings based approach (AIRB). For the subsidiaries portfolios the method used is the standard approach.
b) Market risk: The Group calculates the capital requirements for market risk and for the trading book using the standard model.
c) Operational Risk: Starting with 2010, the Group calculates the capital requirements for operational risk capital using the standard approach.

The Group complies with the regulatory requirements regarding capital adequacy as at 31 December 2018 and 2017, being above the minimum required values.

6. USE OF ESTIMATES AND JUDGMENTS

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the given circumstances.

Impairment allowance on loans and advances

The Group reviews its loan portfolios to assess impairment on a monthly basis. As to determining whether an impairment loss should be recorded in the consolidated statement of comprehensive income, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before it's decrease can be identified with an individual loan in that portfolio.

6. USE OF ESTIMATES AND JUDGMENTS (continued)

This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Group.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The loan impairment assessment considers the visible effects of current market conditions on the individual / collective assessment of loans and advances to customers' impairment. Hence, the Group has estimated the impairment loss provision for loans and advances to customers based on the methodology harmonized with Group policies and assessed that no further provision for impairment losses is required except as already provided for in the financial statements.

Assets accounted for at amortized cost are evaluated for impairment as described in accounting policy 3(ix).

The specific counterparty component of the total allowances for impairment applies to claims evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgments about counterparty's financial situation and the net realizable value of any underlying collateral. Each impaired asset is assessed on its actual value, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the credit risk function.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of claims with similar economic characteristics when there is objective evidence to suggest that they contain impaired claims, but the individual impaired items cannot yet be identified. Country risk is a component in the assessment of collective allowances.

In assessing the need for collective loan loss allowances, management considers factors such as credit quality, portfolio size, concentrations and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modeled and to determine the required input parameters, based on historical experience and current economic conditions.

The actual amount of the allowances depends on the accuracy of the estimated future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances.
To determine the impairment allowances sensitivity to changes in risk parameters (adjusted value of real estate collateral, probability of default) underlying provisioning computation, the Group has drawn up the following scenarios:

First scenario assumes changes in loss given default and price guarantees for retail real estate portfolio for the entire portfolio, taking into account a variation of +/-5%. In this scenario the provision for loan impairment loss would have been increased by RON 29,721 thousand (2017: increased by RON 31,632 thousand) or decreased by RON 23,027 thousand (2017: decreased by RON 27,027 thousand).

Second scenario assumes PD variation of +/-5%. In this scenario the provision for loan impairment loss would have been increased by RON 18,411 thousand (2017: increased by 10,303 thousand RON) or decreased by RON 20,763 thousand (2017: decreased by RON 10,582 thousand|).

Third scenario assumes aggregation assumptions of the previous scenarios. In this scenario the provision for loan impairment loss would have been increased by RON 12,005 thousand (2017: increased by RON 42,355 thousand) or decreased by RON 3,547 thousand (2017: decreased by RON 37,175 thousand).

Parameters change by +/-5% are done in relation to the values used in provision calculation for December 2018 figures (December 2017).

6. USE OF ESTIMATES AND JUDGMENTS (continued)

Fair value of financial instruments

The fair value of financial instruments that are not traded on an active market (for example, unlisted treasury securities, bonds and certificates of deposit) is determined using valuation techniques. The Group uses its judgment to select the valuation method and make assumptions that are mainly based on market conditions existing at statement of financial position date. The Group has used discounted cash flow analysis for the equity instruments that were not traded in active markets.

Valuation of financial instruments

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price in an active market for an identical instrument;
- Level 2: Valuation techniques based on observable inputs. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data;
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs could have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The Group measures fair values mainly using valuation techniques based on observable inputs, i.e. all significant inputs are directly or indirectly observable from market data. Valuation techniques include net present value and discounted cash flow models like Black Scholes related models and option pricing models as well as other valuation models. Assumptions and inputs used in valuation techniques include risk free and benchmark interest rates, bond yields, foreign currency exchange rates, expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The Group uses widely recognized valuation models for determining the fair value of common and simpler financial instruments, like interest rate and currency swaps, foreign exchange forwards and swaps, that use only observable market data and require little management judgment and estimation.

Observable prices and model inputs are usually available in the market for bonds and simple over the counter derivatives. Availability of these reduces the need for management judgment and estimations and also reduces the uncertainty associated with determination of fair values.

For bonds valuation the Group uses prices or yields which are observable in the market, quotes published by Central Bank or quotes received upon request from third parties.

For more complex instruments, like over the counter foreign exchange options or interest rate options, the Group uses valuation models, which are usually developed from recognized valuation models. These models also use inputs, which are observable in the markets.

The valuation techniques used to determine the fair value of customers' loans and deposits not measured at fair value and disclosed in the notes consider unobservable inputs and assumptions, such as the specific credit risk and contractual characteristics of the portfolios, but also observables inputs, the benchmark interest rates for recent originated porfolios.

6. USE OF ESTIMATES AND JUDGMENTS (continued)

The fair value of the unimpaired customer loans was determined based on the cash flows estimated to be generated by the portfolio. These amounts were discounted using the interest rates that would be currently offered to clients for similar products (the available offer as of the valuation date or loans granted during the last 3 months), by considering the characteristics of each loan, namely product type, currency, remaining tenor, interest rate type, customer segmentation and for non-retail clients also risk indicators based on the industry in which they are currently developing their activity. For the products no longer in the Group's offer, and for which no current market (observed interest rates) are available, following assumptions were used: similar products' prevailing margins for discounting, adjusted with the relevant market rate index correspondent to the particular products' currencies, the swap points required for the currency conversion (if applicable) and remaining tenors.

For the impaired loan portfolio, a similar discounted cash flow calculation resulted in a fair value calculation that can be approximated by the net book value.

The fair value of deposits from customers was determined based on the interest rate differential of the current portfolio as of end 2018 and the prevailing interest rates offered by the Bank, during the last three months from the financial period ended. For the term deposits, a discounted cash flows calculation was performed using for discounting the weighted average margins pertaining to the new deposits opened during December 2018 based on their specific characteristics like tenors, currencies and client types similar to the structure of the portfolio subject to the fair value calculation and current market yield. The fair value of the current accounts and savings accounts from clients was estimated to be equal to the book value, with no evidence of product characteristics requiring a different value than the one currently in accounting books.

For the borrowings and the issued bonds, the Group performed a discounted cash flows analysis in order to estimate the fair value. The discount factor consisted of the initially calibrated spread, the liquidity curve at valuation date and the risk free rate at valuation date.

7. FINANCIAL ASSETS AND LIABILITIES

The table below analyses financial instruments at fair value and at carrying amount by using the valuation methods described in note 6:

Group

In RON thousand	Note	Level 1	Level 2	Level 3	Total	Carrying amount
31 December 2018						
Assets						
Financial instruments measured at fair value						
Trading assets	18	281,435	17,610	-	**299,045**	**299,045**
out of which:						
Debt securities		281,435	-	-	**281,435**	**281,435**
Foreign exchange contracts		-	11,253	-	**11,253**	**11,253**
Interest rate swaps		-	6,357	-	**6,357**	**6,357**
Derivative assets held for risk management	19	-	8,620	-	**8,620**	**8,620**
Financial assets mandatorily at fair value through profit or loss	27	-	-	380,228	**380,228**	**380,228**
Investment securities at fair value through other comprehensive income	23	2,661,908	516,851	25,548	**3,204,307**	**3,204,307**
Equity instruments at fair value through other comprehensive income	24	-	33,890	14,133	**48,023**	**48,023**
Fair value changes of the hedged items-hedge accounting	28	1,124	-	-	**1,124**	**1,124**
Financial instruments for which fair value is disclosed						
Cash and cash with Central Bank	17	7,197,230	-	-	**7,197,230**	**7,197,230**
Loans and advances to banks at amortised cost	20	437,854	-	-	**437,854**	**437,854**
Loans and advances to customers at amortised cost	21	-	-	26,496,747	**26,496,747**	**26,144,360**
Investment securities at amortised cost	25	2,334,204	-	243	**2,334,447**	**2,333,367**
Other assets	29	-	-	248,086	**248,086**	**248,086**
Liabilities						
Financial instruments measured at fair value						
Trading liabilities	18	-	18,322	-	**18,322**	**18,322**
Derivative liabilities held for risk management	19	-	7,478	-	**7,478**	**7,478**
Derivatives – hedge accounting	28	1,433	-	-	**1,433**	**1,433**
Financial instruments for which fair value is disclosed						
Deposits from banks	33	536,070	-	-	**536,070**	**536,070**
Deposits from customers	34	-	-	33,022,488	**33,022,488**	**33,051,203**
Loans from banks and other financial institutions	35	-	-	808,936	**808,936**	**809,898**
Debt securities issued	35	-	527,341	-	**527,341**	**512,458**
Subordinated liabilities	35	-	-	875,090	**875,090**	**855,678**
Other liabilities		-	-	556,812	**556,812**	**556,812**

7. FINANCIAL ASSETS AND LIABILITIES (continued)

The table below analyses financial instruments at fair value and at carrying amount by using the valuation methods described in note 6:

In RON thousand	Note	Level 1	Level 2	Level 3	Total	Carrying amount
31 December 2017						
Assets						
Financial instruments measured at fair value						
Trading assets	18	54,594	31,704	-	**86,298**	**86,298**
out of which:						
Government debt securities		54,594	-	-	**54,594**	**54,594**
Foreign exchange contracts		-	18,373	-	**18,373**	**18,373**
Interest rate swaps		-	13,330	-	**13,330**	**13,330**
Derivative assets held for risk management	19	-	35,237	-	**35,237**	**35,237**
Investment securities available for sale		2,614,464	295,899	16,019	**2,926,382**	**2,926,382**
Investment securities designated at fair value through profit or loss		884,880	109,967	9,511	**1,004,358**	**1,004,358**
Financial instruments for which fair value is disclosed						
Cash and cash with Central Bank	17	8,471,977	-	-	**8,471,977**	**8,471,977**
Loans and advances to banks	20	89,168	-	-	**89,168**	**89,168**
Loans and advances to customers	21	-	-	22,172,123	**22,172,123**	**22,161,274**
Investment securities held to maturity		1,308,646	-	-	**1,308,646**	**1,297,233**
Mutual funds		17,589	-	-	**17,589**	**17,589**
Investment securities available for sale		-	-	4,252	**4,252**	**4,252**
Investment in subsidiaries, associates and joint ventures	26	-	-	23,911	**23,911**	**23,911**
Other assets		-	-	243,079	**243,079**	**243,079**
Liabilities						
Financial instruments measured at fair value						
Trading liabilities	18	-	29,291	-	**29,291**	**29,291**
Derivative liabilities held for risk management	19	-	50,844	-	**50,844**	**50,844**
Financial instruments for which fair value is disclosed						
Deposits from banks	33	508,289	-	-	**508,289**	**508,289**
Deposits from customers	34	-	-	29,698,024	**29,698,024**	**29,695,999**
Loans from banks and other financial institutions	35	-	-	931,333	**931,333**	**931,958**
Debt securities issued	35	-	527,378	-	**527,378**	**512,501**
Subordinated liabilities	35	-	-	849,017	**849,017**	**849,017**
Other liabilities		-	-	490,927	**490,927**	**490,927**

TRANSLATOR'S EXPLANATORY NOTE: The above translation of the consolidated and separate financial statements is provided as a free translation from Romanian which is the official and binding version.

7. FINANCIAL ASSETS AND LIABILITIES (continued)

The table below analyses financial instruments at fair value and at carrying amount by using the valuation methods described in note 6:

Bank

In RON thousand	Note	Level 1	Level 2	Level 3	Total	Carrying amount
31 December 2018						
Assets						
Financial instruments measured at fair value						
Trading assets	18	281,316	17,610	-	**298,926**	**298,926**
out of which:						
Debt securities		281,316	-	-	**281,316**	**281,316**
Foreign exchange contracts		-	11,253	-	**11,253**	**11,253**
Interest rate swaps		-	6,357	-	**6,357**	**6,357**
Derivative assets held for risk management	19	-	8,620	-	**8,620**	**8,620**
Financial assets mandatorily at fair value through profit or loss	27	-	-	368,508	**368,508**	**368,508**
Investment securities at fair value through other comprehensive income	23	2,661,908	516,851	25,548	**3,204,307**	**3,204,307**
Equity instruments at fair value through other comprehensive income	24	-	33,890	14,133	**48,023**	**48,023**
Fair value changes of the hedged items-Hedge accounting	28	1,124	-	-	**1,124**	**1,124**
Financial instruments for which fair value is disclosed						
Cash and cash with Central Bank	17	7,197,222	-	-	**7,197,222**	**7,197,222**
Loans and advances to banks at amortised cost	20	435,126	-	-	**435,126**	**435,126**
Loans and advances to customers at amortised cost	21	-	-	25,742,352	**25,742,352**	**25,389,969**
Investment securities at amortised cost	25	2,309,681	-	-	**2,309,681**	**2,308,071**
Mutual funds		-	-	-	**-**	**-**
Other assets	29	-	-	223,689	**223,689**	**223,689**
Liabilities						
Financial instruments measured at fair value						
Trading liabilities	18	-	18,322	-	**18,322**	**18,322**
Derivative liabilities held for risk management	19	-	7,478	-	**7,478**	**7,478**
Derivatives – Hedge accounting	28	1,433	-	-	**1,433**	**1,433**
Financial instruments for which fair value is disclosed						
Deposits from banks	33	536,070	-	-	**536,070**	**536,070**
Deposits from customers	34	-	-	33,064,858	**33,064,858**	**33,093,573**
Loans from banks and other financial institutions	35	-	-	107,311	**107,311**	**108,274**
Debt securities issued	35	-	531,163	-	**531,163**	**516,179**
Subordinated liabilities	35	-	-	875,090	**875,090**	**855,678**
Other liabilities		-	-	550,918	**550,918**	**550,918**

7. FINANCIAL ASSETS AND LIABILITIES (continued)

The table below analyses financial instruments by using the valuation methods described in note 6:

In RON thousand	Note	Level 1	Level 2	Level 3	Total	Carrying amount
31 December 2017						
Assets						
Financial instruments measured at fair value						
Trading assets	18	54,594	32,181	-	**86,775**	**86,775**
out of which:						
Government debt securities		54,594	-	-	**54,594**	**54,594**
Foreign exchange contracts		-	18,851	-	**18,851**	**18,851**
Interest rate swaps		-	13,330	-	**13,330**	**13,330**
Derivative assets held for risk management	19	-	35,237	-	**35,237**	**35,237**
Investment securities available for sale		2,614,465	295,899	16,019	**2,926,383**	**2,926,383**
Investment securities designated at fair value through profit or loss		884,880	109,967	9,511	**1,004,358**	**1,004,358**
Financial instruments for which fair value is disclosed						
Cash and cash with Central Bank	17	8,471,851	-	-	**8,471,851**	**8,471,851**
Loans and advances to banks	20	85,641	-	-	**85,641**	**85,641**
Loans and advances to customers	21	-	-	21,433,782	**21,433,782**	**21,422,932**
Investment securities held to maturity		1,286,769	-	-	**1,286,769**	**1,275,730**
Investment securities available for sale		-	-	4,023	**4,023**	**4,023**
Investment in subsidiaries, associates and joint ventures	26	-	-	105,379	**105,379**	**105,379**
Other assets		-	-	225,116	**225,116**	**225,116**
Liabilities						
Financial instruments measured at fair value						
Trading liabilities	18	-	29,603	-	**29,603**	**29,603**
Derivative liabilities held for risk management	19	-	50,245	-	**50,245**	**50,245**
Financial instruments for which fair value is disclosed						
Deposits from banks	33	508,289	-	-	**508,289**	**508,289**
Deposits from customers	34	-	-	29,738,773	**29,738,773**	**29,736,748**
Loans from banks and other financial institutions	35	-	-	239,975	**239,975**	**240,600**
Debt securities issued	35	-	531,223	-	**531,223**	**516,223**
Subordinated liabilities	35	-	-	849,017	**849,017**	**849,017**
Other liabilities		-	-	486,147	**486,147**	**486,147**

7. FINANCIAL ASSETS AND LIABILITIES (continued)

The below table presents the measurements categories for financial instruments:

Group *In RON thousand* **31 December 2018**	Note	Held for trading	Mandatorily at fair value through profit or loss	Fair value through other comprehensive income	Aamortised cost	Total carrying amount	Fair value
Financial assets							
Cash and cash equivalents		-	-	-	7,197,230	7,197,230	7,197,230
Trading assets	18	299,045	-	-	-	299,045	299,045
Derivative assets held for risk management	19	8,620	-	-	-	8,620	8,620
Financial assets mandatorily at fair value through profit or loss	27	-	380,228	-	-	380,228	380,228
Loans and advances to banks at amortised cost	20	-	-	-	437,854	437,854	437,854
Loans and advances to customers at amortised cost	21	-	-	-	26,144,360	26,144,360	26,496,747
Fair value changes of the hedged items-Hedge accounting	28	1,124	-	-	-	1,124	1,124
Investment securities	23-25	-	-	3,252,330	2,333,367	5,585,697	5,586,777
Other assets		-	-	-	248,086	248,086	248,086
Total financial assets		**308,789**	**380,228**	**3,252,330**	**36,360,897**	**40,302,244**	**40,655,711**
Financial liabilities							
Trading liabilities	18	18,322	-	-	-	18,322	18,322
Derivative liabilities held for risk management	19	7,478	-	-	-	7,478	7,478
Derivatives – Hedge accounting	28	1,433	-	-	-	1,433	1,433
Deposits from banks	33	-	-	-	536,070	536,070	536,070
Deposits from customers	34	-	-	-	33,051,203	33,051,203	33,022,488
Loans from banks and other financial institutions	35	-	-	-	809,898	809,898	808,936
Debt securities issued	35	-	-	-	512,458	512,458	527,341
Subordinated liabilities	35	-	-	-	855,678	855,678	875,090
Other Liabilities		-	-	-	556,812	556,812	556,812
Total financial liabilities		**27,233**	**-**	**-**	**36,322,119**	**36,349,352**	**36,353,970**

7. FINANCIAL ASSETS AND LIABILITIES (continued)

The below table presents the measurements categories for financial instruments:

Group *In RON thousand*	**Note**	**Held for trading**	**Designated at fair value**	**Held to maturity**	**Loans and receivables**	**Available for sale**	**Other amortised cost**	**Total carrying amount**	**Fair value**
31 December 2017									
Financial assets									
Cash and cash equivalents	17				8,471,977			8,471,977	8,471,977
Trading assets	18	86,298	-	-	-	-	-	86,298	86,298
Derivative assets held for risk management	19	35,237	-	-	-	-	-	35,237	35,237
Loans and advances to banks	20	-	-	-	89,168	-	-	89,168	89,168
Loans and advances to customers	21	-	-	-	22,161,274	-	-	22,161,274	22,172,123
Investment securities	22	-	1,021,947	1,297,233	-	2,930,634	-	5,249,814	5,261,227
Other assets		-	-	-	-	-	243,079	243,079	243,079
Total financial assets		**121,535**	**1,021,947**	**1,297,233**	**30,722,419**	**2,930,634**	**243,079**	**36,336,847**	**36,359,109**
Financial liabilities									
Trading liabilities	18	29,291	-	-	-	-	-	29,291	29,291
Derivative liabilities held for risk management	19	50,844	-	-	-	-	-	50,844	50,844
Deposits from banks	28	-	-	-	508,289	-	-	508,289	508,289
Deposits from customers	33	-	-	-	29,695,999	-	-	29,695,999	29,698,024
Loans from banks and other financial institutions	34	-	-	-	931,958	-	-	931,958	931,333
Debt securities issued	35	-	-	-	512,501	-	-	512,501	527,378
Subordinated liabilities	35	-	-	-	849,017	-	-	849,017	849,017
Other liabilities		-	-	-	-	-	490,927	490,927	490,927
Total financial liabilities		**80,135**	**-**	**-**	**32,497,764**	**-**	**490,927**	**33,068,826**	**33,085,103**

7. FINANCIAL ASSETS AND LIABILITIES (continued)

The below table presents the measurements categories fo financial instruments:

Bank *In RON thousand* **31 December 2018**	**Note**	**Held for trading**	**Mandatorily at fair value through profit or loss**	**Fair value through other comprehensive income**	**Amortised cost**	**Total carrying amount**	**Fair value**
Financial assets							
Cash and cash equivalents		-	-	-	7,197,222	7,197,222	7,197,222
Trading assets	18	298,926	-	-	-	298,926	298,926
Derivative assets held for risk management	19	8,620	-	-	-	8,620	8,620
Financial assets mandatorily at fair value through profit or loss	27	-	368,508	-	-	368,508	368,508
Loans and advances to banks at amortised cost	20	-	-	-	435,126	435,126	435,126
Loans and advances to customers at amortised cost	21	-	-	-	25,389,969	25,389,969	25,742,352
Fair value changes of the hedged items-Hedge accounting	28	1,124	-	-	-	1,124	1,124
Investment securities	23-25	-	-	3,252,330	2,308,071	5,560,401	5,562,011
Other assets		-	-	-	223,689	223,689	223,689
Total financial assets		**308,670**	**368,508**	**3,252,330**	**35,554,077**	**39,483,585**	**39,837,578**
Financial liabilities							
Trading liabilities	18	18,322	-	-	-	18,322	18,322
Derivative liabilities held for risk management	19	7,478	-	-	-	7,478	7,478
Derivatives – Hedge accounting	28	1,433	-	-	-	1,433	1,433
Deposits from banks	33	-	-	-	536,070	536,070	536,070
Deposits from customers	34	-	-	-	33,093,573	33,093,573	33,064,858
Loans from banks and other financial institutions	35	-	-	-	108,274	108,274	107,311
Debt securities issued	35	-	-	-	516,179	516,179	531,163
Subordinated liabilities	35	-	-	-	855,678	855,678	875,090
Other Liabilities		-	-	-	550,918	550,918	550,918
Total financial liabilities		**27,233**	**-**	**-**	**35,660,692**	**35,687,925**	**35,692,643**

7. FINANCIAL ASSETS AND LIABILITIES (continued)

The below table presents the measurements categories fo financial instruments:

Bankl *In RON thousand* **31 December 2017**	Note	Held for trading	Designated at fair value	Held to maturity	Loans and receivables	Available for sale	Other amortised cost	Total carrying amount	Fair value
Financial assets									
Cash and cash equivalents	17	-	-	-	8,471,977	-	-	8,471,977	8,471,977
Trading assets	18	86,775	-	-	-	-	-	86,775	86,775
Derivative assets held for risk management	19	35,237	-	-	-	-	-	35,237	35,237
Loans and advances to banks	20	-	-	-	85,641	-	-	85,641	85,641
Loans and advances to customers	21	-	-	-	21,422,932	-	-	21,422,932	21,433,782
Investment securities	22	-	1,004,358	1,275,730	-	2,930,406	-	5,210,494	5,221,533
Other assets		-	-	-	-	-	225,116	225,116	225,116
Total financial assets		**122,012**	**1,004,358**	**1,275,730**	**31,256,154**	**2,930,406**	**225,116**	**35,358,046**	**33,559,899**
Financial liabilities									
Trading liabilities	18	29,603	-	-	-	-	-	29,603	29,603
Derivative liabilities held for risk management	19	50,245	-	-	-	-	-	50,245	50,245
Deposits from banks	33	-	-	-	508,289	-	-	508,289	508,289
Deposits from customers	34	-		-	29,736,748	-	-	29,736,748	29,738,773
Loans from banks and other financial institutions	35	-	-	-	240,600	-	-	240,600	239,975
Debt securities issued	35	-	-	-	516,223	-	-	516,223	531,223
Subordinated liabilities	35	-	-	-	849,017	-	-	849,017	849,017
Other liabilities		0	0	0	0	0	486,147	486,147	486,147
Total financial liabilities		**79,848**	**-**	**-**	**31,850,877**	**-**	**486,147**	**31,930,725**	**31,947,125**

8. NET INTEREST INCOME

	Group		Bank	
	2018	2017	2018	2017
In RON thousand				
Interest income				
Interest and similar income arising from:				
Current accounts and loans and advances to banks	24,098	9,171	27,456	11,106
Loans and advances to customers *(i)*	1,517,678	1,217,841	1,517,678	1,217,841
Derivatives held for risk management	-	61	-	61
Available for sale investments	-	22,896	-	22,896
Investments measured at fair value through other comprehensive income	60,343	-	60,343	-
Held to maturity investments	-	16,966	-	16,966
Investments securities measured at amortised cost	45,743	-	44,764	-
Other investment securities	-	9,516	-	8,738
Negative interest	(17,655)	(12,975)	(17,655)	(12,975)
Finance leasing activity	44,912	33,271	-	-
Total interest income	**1,675,119**	**1,296,747**	**1,632,586**	**1,264,633**
Interest expense and similar charges				
Interest expense and similar charges arising from:				
Deposits from banks	(2,276)	(1,007)	(2,276)	(1,007)
Deposits from customers	(71,435)	(40,294)	(62,044)	(34,102)
Debt securities issued	(26,710)	(26,719)	(26,710)	(26,912)
Loans from banks and subordinated liabilities	(41,436)	(45,426)	(41,583)	(45,426)
Other	-	(5,253)	-	(5,253)
Total interest expense	**(141,857)**	**(118,699)**	**(132,613)**	**(112,700)**
Net interest income	**1,533,262**	**1,178,048**	**1,499,973**	**1,151,933**

(i) The amount of interest income from impaired loans amounts to RON 38,291 thousand (31 December 2017: RON 47,855 thousand).

9. NET FEE AND COMMISSION INCOME

In RON thousand	Group 2018	Group 2017	Bank 2018	Bank 2017
Fee and commission income				
Transactions from payments transfer business	637,768	557,359	637,770	557,576
Loans administration and guarantee issuance	62,326	57,938	62,326	57,938
Asset management fee	48,107	50,171	-	-
Commissions from insurance premium collections	63,281	49,325	63,281	49,325
Finance Leasing activity	8,559	3,603	-	-
Commissions for buying/selling cash	1,437	2,503	1,437	2,503
Other	18,265	39,090	52,851	74,204
Total fee and commission income	**839,743**	**759,989**	**817,665**	**741,546**
Fees and commissions expense				
Commissions for payment transfers	(191,603)	(148,540)	(191,598)	(148,478)
Loan and guarantees received from banks	(8,828)	(13,195)	(8,779)	(13,107)
For securities business	(168)	(181)	(784)	(1,106)
Other	(13)	(11,756)	(13)	(10,565)
Total fee and commission expense	**(200,612)**	**(173,672)**	**(201,174)**	**(173,256)**
Net fee and commission income	**639,131**	**586,317**	**616,491**	**568,290**

10. NET TRADING INCOME

In RON thousand	Group 2018	Group 2017	Bank 2018	Bank 2017
Net trading income from:				
Currency based instruments (i), out of which:	357,233	325,710	357,419	325,223
▪ Gain/(loss) from foreign exchange derivative transactions	10,120	(7,792)	9,804	(7,792)
▪ Net gain on revaluation of monetary assets and foreign currency transactions	347,113	333,502	347,615	333,015
Interest rate instruments (ii), out of which:	810	(14,442)	569	(14,442)
▪ Net trading result from government securities and corporate debt securities	3,420	(16,641)	3,420	(16,641)
▪ Interest rate swaps gain/(loss)	(2,610)	2,199	(2,851)	2,199
Net trading income	**358,043**	**311,268**	**357,988**	**310,781**

(i) Net foreign exchange income from currency based transactions includes gains and losses from spot and forward contracts, money market instruments, currency swaps and from the translation of foreign currency assets and liabilities;
(ii) Net trading income from interest rate instruments includes the net result on trading in government securities, corporate debt securities and interest rate swaps.

11. OTHER OPERATING INCOME

In RON thousand	Group 2018	Group 2017	Bank 2018	Bank 2017
Net proceeds from sales of available for sale instruments	-	153	-	153
Gain/loss on impairment for investments in subsidiaries, associates and joint ventures	-	1,692	-	-
Reversal of litigation provision	622	-	622	-
Revenues from additional leasing services	2,115	2,203	-	410
Reversal of other provisions	9,897	16,826	9,897	16,826
Dividend income	2,014	1,778	8,403	6,711
Revenues from IT services	2,530	2,478	2,530	2,478
Income from repossessed assets	1,270	4,792	1,270	4,792
Sundry income	8,081	15,024	9,151	17,193
Total	**26,529**	**44,946**	**31,873**	**48,563**

12. OPERATING EXPENSES

In RON thousand	Group 2018	Group 2017	Bank 2018	Bank 2017
Rental of office space expenses	155,723	150,264	154,038	150,494
IT repairs and maintenance	93,282	78,328	91,396	77,063
Depreciation and amortization (Note 31, Note 32)	117,313	100,603	115,870	99,552
Deposit insurance fees*	11,588	5,147	11,588	5,147
Resolution fund fee**	15,959	38,433	15,959	38,433
Security expenses	95,506	84,959	95,506	84,959
Advertising	76,100	78,531	74,871	77,530
Charge of litigation provision	-	6,697	-	6,697
Legal, advisory and consulting expenses	50,244	42,811	49,061	42,299
Postal and telecommunication expenses	34,347	32,550	33,818	32,186
Office supplies	29,474	34,241	29,342	34,119
Sundry operating expenses	17,363	40,753	16,449	39,260
Charge of other provisions	20,777	3,449	20,777	3,449
Training expenses for staff	15,328	8,980	14,910	8,700
Travelling expenses	8,099	10,707	7,813	10,454
Transport costs	5,699	5,464	5,193	5,101
Other taxes	7,314	5,827	6,063	3,851
Total	**754,116**	**727,744**	**742,654**	**719,294**

* The Bank pays annually contributions to the Bank Deposit Guarantee Fund for guaranteed deposits. Guaranteed deposits represent any credit balance, including the due interest, which results from funds left in an account or from temporary situations deriving from normal banking transactions and which a credit institution must repay in the legal and contractual conditions applicable. Examples of guaranteed deposits are: time deposits, current accounts, savings accounts, debit/credit card accounts.

**Bank pays contribution to resolution fund for liabilities not covered, respectively for liabilities (excluding own funds) less covered deposits. The liability to pay these levies is recognized when they become constructive. In this case, the obligation arises annually on January 1, as the Bank performs activities related to deposits received.

The Bank recognises the expense with deposit insurance fees and resolution fund fee in the same year with the payment.

Group: The expense with statutory audit of financial statements as at December 31, 2018 was in amount of RON 769 thousand (December 31, 2017: RON 872 thousand), the expense with assurance services as at December 31, 2018 was in amount of RON 1,051 thousand (December 31, 2017: RON 264 thousand), and the expense with non assurance services as at December 31, 2018 was in amount of RON 1,153 thousand (December 31, 2017: RON 491 thousand).

12. OPERATING EXPENSES (continued)

Bank: The expense with statutory audit of financial statements as at December 31, 2018 was in amount of RON 663 thousand (December 31, 2017: RON 794 thousand), the expense with assurance services as at December 31, 2018 was in amount of RON 761 thousand (December 31, 2017: RON 221 thousand), and the expense with non assurance services as at December 31, 2018 was in amount of RON 1,153 thousand (December 31, 2017: RON 391 thousand).

13. PERSONNEL EXPENSE

In RON thousand	Group		Bank	
	2018	2017	2018	2017
Salary expense (i)	549,241	442,945	528,005	428,913
Social contributions (ii)	22,311	100,758	21,663	97,760
Other staff expenses	26,754	9,652	26,011	9,260
Long term employee benefits (iii)	1,557	2,451	1,493	2,431
Total	**599,863**	**555,806**	**577,172**	**538,364**

(i) Out of the total salary expense, the Group has recorded in 2018 RON 4,040 thousand, representing contribution for employees to Pillar 3 pension plan (2017: RON 3,885 thousand).

(ii) Starting with January 1, 2018 the government has reduced the number of mandatory social contributions that employers have to pay for their own employees, according to OUG no. 79 on the amendment and completion of the Tax Code published on November 10, 2017 in the Official Gazette, and amended the quota for the income tax on salaries. Thus, the contribution to pensions (CAS) and the contribution to health (CASS) is due entirely by the employee and only the insurance contribution for work is due by the employer alone.

(iii) The long term benefits for employees also include the provision for benefits granted on retirement as a one-off compensation and deferred performance bonus. Out of the total long term employee benefits, the Group has recorded in 2018 RON 246 thousand, representing the expense for share incentive plan (2017: RON 563 thousand)

The number of employees at Group level as at 31 December 2018 was 5,075 (31 December 2017: 5,314). The number of employees at Bank level as at 31 December 2018 was 4,968 (31 December 2017: 5,190).

Share-based remuneration

The Management Board, with approval by the Supervisory Board, of Raiffeisen Bank International has approved the existence of a share incentive program (SIP) which could offer performance based allotments of shares to eligible employees at home and abroad for a given period. Eligible employees were board members and selected executives of Raiffeisen Bank International, as well as executives of its affiliated bank subsidiaries and other affiliated companies.

The number of ordinary shares of Raiffeisen Bank International which will ultimately be transferred depends on the achievement of two performance criteria: the targeted return on equity (ROE) and the performance of the share of the RBI AG compared to the total shareholder return of the shares of companies in DJ EURO STOXX Banks index after a three-year holding period. Participation in SIP is voluntary.

Expenses related to the share incentive program are recognized in staff expenses in accordance with IFRS 2 for cash settled share-based payment transactions and the liability incurred at the fair value of the liability. The share incentive plan was in place until 31 December 2013 and from 2014 the Group has cancelled this form of remuneration.

The number of shares as determined above considers full performance achievement. The value of the finally paid out Raiffeisen Bank International shares to personnel depends on the value of shares at payout. For each annual SIP there is a vesting period of 5 years.

14. NET CHARGE OF PROVISION FOR IMPAIRMENT LOSSES

Group — **31 December 2018**

In RON thousand	Stage 1 Collective	Stage 2 Collective	Stage 3 Collective	Stage 3 Individual	of which POCI stage 2	of which POCI stage 3	Total
Non-retail							
Loans and advances to customers at amortised cost	20,671	3,011	-	31,533	955	4,694	55,215
Loan commitments and financial guarantees	4,321	267	-	23,951	-	-	28,539
Loans written-off	150	759	-	4,309	-	-	5,218
Recoveries from loans and advances to customers	-	(148)	-	(7,262)	-	-	(7,410)
Total *non-retail*	**25,142**	**3,889**	**-**	**52,531**	**955**	**4,694**	**81,562**
Retail							
Loans and advances to customers at amortised cost	(1,460)	(36,494)	173,698	-	(5,130)	574	135,744
Loan commitments and financial guarantees	-	(187)	(257)	-	-	-	(444)
Loans written-off	436	1,052	32,399	-	-	-	33,887
Recoveries from loans and advances to customers	(7)	(98)	(74,520)	-	-	-	(74,625)
Total retail	**(1,031)**	**(35,727)**	**131,320**	**-**	**(5,130)**	**574**	**94,562**

Bank — **31 December 2018**

In RON thousand	Stage 1 Collective	Stage 2 Collective	Stage 3 Collective	Stage 3 Individual	of which POCI stage 2	of which POCI stage 3	Total
Non-retail							
Loans and advances to customers at amortised cost	18,909	2,591	-	31,657	955	4,694	53,157
Loan commitments and financial guarantees	4,321	267	-	23,951	-	-	28,539
Loans written-off	150	759	-	4,309	-	-	5,218
Recoveries from loans and advances to customers	-	(148)	-	(6,782)	-	-	(6,930)
Total *non-retail*	**23,380**	**3,469**	**-**	**53,135**	**955**	**4,694**	**79,984**
Retail							
Loans and advances to customers at amortised cost	(1,460)	(36,494)	173,698	-	(5,130)	574	135,744
Loan commitments and financial guarantees	-	(187)	(257)	-	-	-	(444)
Loans written-off	436	1,052	32,399	-	-	-	33,887
Recoveries from loans and advances to customers	(7)	(98)	(74,520)	-	-	-	(74,625)
Total retail	**(1,031)**	**(35,727)**	**131,320**	**-**	**(5,130)**	**574**	**94,562**

14. NET CHARGE OF PROVISION FOR IMPAIRMENT LOSSES (continued)

	31 December 2017	
In RON thousand	Group	Bank
Impairment charge on loans and advances to customers	688,505	679,608
Release of the impairment for loans and advances to customers	(369,361)	(362,485)
Impairment charge on un-drawn commitments	11,723	11,723
Release of the impairment for un-drawn commitments	(10,438)	(10,438)
Loans written-off	150,410	151,085
Recoveries from loans and advances to customers	(225,216)	(225,216)
Net charge of provision for impairment loss	**245,623**	**244,277**

The contractual amount outstanding on credit exposures that were written off and are still subject to enforcement activity during the period as of 31 December 2018 is RON 129,395 thousand, out of which non-retail exposures in amount of RON 65,823 thousand and retail exposures in amount of RON 63,572 thousand.

15. INCOME TAX EXPENSE

Group

In RON thousand	2018	2017
Current tax expenses at 16% (2017:16%) of taxable profits determined in accordance with Romanian law	189,949	97,401
Deferred tax income (Note 25)	(16,413)	(2,263)
Total	**173, 536**	**95,138**

Bank

In RON thousand	2018	2017
Current tax expenses at 16% (2017:16%) of taxable profits determined in accordance with Romanian law	184,855	94,350
Deferred tax income (Note 30)	(14,883)	(1,767)
Total	**169,972**	**92,583**

16. RECONCILIATION OF INCOME BEFORE TAX WITH THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Group		Bank	
	2018	2017	2018	2017
In RON thousand				
Gross profit before tax	1,068,911	604,038	1,051,059	583,763
Taxation at statutory rate of 16% (2017: 16%)	**171,026**	**96,646**	**168,169**	**93,402**
Non-deductible expenses	55,519	51,155	53,907	51,106
Non-taxable revenues	(23,560)	(37,628)	(24,185)	(37,511)
Corporate income tax before fiscal credit	**202,985**	**110,173**	**197,891**	**106,997**
Fiscal credit	(13,036)	(9,982)	(13,036)	(9,857)
Adjustments recognized in the period for current tax of prior periods	-	(2,790)	-	(2,790)
Corporate income tax	**189,949**	**97,401**	**184,855**	**94,350**
Deferred tax income	(16,413)	(2,263)	(14,883)	(1,767)
Income tax expense	**173,536**	**95,138**	**169,972**	**92,583**

16. RECONCILIATION OF INCOME BEFORE TAX WITH THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)

The main non taxable income are from reversal of provisions and dividends received. Non deductible expenses are from provisions, sponsorships, accruals and other non-deductible expenses according to the Fiscal Code.

17. CASH AND CASH WITH CENTRAL BANK

	Group		Bank	
	31 December 2018	**31 December 2017**	**31 December 2018**	**31 December 2017**
In RON thousand				
Cash on hand	4,235,697	4,516,070	4,235,689	4,515,944
Minimum compulsory reserve	2,961,533	3,955,907	2,961,533	3,955,907
Total	**7,197,230**	**8,471,977**	**7,197,222**	**8,471,851**

The Bank maintains with the National Bank of Romania the minimum compulsory reserve established under Regulation no. 6/2002 issued by the National Bank of Romania, with subsequent amendments and addendums. As of 31 December 2018 the mandatory minimum reserve ratio was 8% (31 December 2017: 8%) for funds raised in RON and foreign currency with residual maturity of less than 2 years, at the end of the observation period. For liabilities having residual maturity over 2 years at the end of the observation period, without reimbursement, conversion or early retirement clauses, compulsory minimum reserve ratio was set at 0% (31 December 2017: 0%).

The minimum compulsory reserve can be used by the Group for daily activities but under the condition that the monthly average balance of the minimum compulsory reserve is kept within the legal limits.

18. TRADING ASSETS / LIABILITIES

	Group		Bank	
In RON thousand	**31 December 2018**	**31 December 2017**	**31 December 2018**	**31 December 2017**
Trading assets				
Debt instruments	281,435	54,594	281,316	54,594
Derivative financial instruments	17,610	31,704	17,610	32,181
Total	**299,045**	**86,298**	**298,926**	**86,775**
Trading liabilities				
Derivative financial instruments	18,322	29,291	18,322	29,603
Total	**18,322**	**29,291**	**18,322**	**29,603**

19. DERIVATIVES HELD FOR RISK MANAGEMENT

Group

31 December 2018

In RON thousand	Notional buy	Notional sell	Fair value Assets	Fair value Liabilities
OTC products:				
Cross currency Interest rate swaps	169,721	162,987	8,533	277
FX swap	730,838	733,775	87	3,649
Interest rate swaps	275,253	275,253	-	3,552
Total			**8,620**	**7,478**

31 December 2017

In RON thousand	Notional buy	Notional sell	Fair value Assets	Fair value Liabilities
OTC products:				
Cross currency Interest rate swaps	167,749	160,067	9,144	108
FX swap	14,822,764	14,830,813	25,845	49,042
Interest rate swaps	122,173	122,173	248	1,694
Total			**35,237**	**50,844**

Bank

31 December 2018

In RON thousand	Notional buy	Notional sell	Fair value Assets	Fair value Liabilities
OTC products:				
Cross currency Interest rate swaps	169,721	162,987	8,533	277
FX swap	730,838	733,775	87	3,649
Interest rate swaps	275,253	275,253	-	3,552
Total			**8,620**	**7,478**

31 December 2017

In RON thousand	Notional buy	Notional sell	Fair value Assets	Fair value Liabilities
OTC products:				
Cross currency Interest rate swaps	167,749	160,067	9,144	-
FX swap	14,822,764	14,830,813	25,845	49,042
Interest rate swaps	122,173	122,173	248	1,203
Total			**35,237**	**50,245**

FX swap contracts are used by the bank mainly for liquidity management. These operations are used by the bank to invest for a period of time the liquidity available in a currency by exchange it for another currency.

The Group implemented in 2018 hedge accounting for its currency and interest rate derivative contracts. The fair value of derivative financial instruments is determined by discounted cash flow models using the market quotations at the valuation date.

Foreign exchange transactions are measured by discounted future models using the market rates from Reuters and the fixing price of National Bank of Romania.

20. LOANS AND ADVANCES TO BANKS AT AMORTISED COST

	Group		Bank	
In RON thousand	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Refundable at request	44,093	44,243	41,574	40,716
Sight Deposits	351,416	2,698	351,207	2,698
Term Deposits	42,345	42,227	42,345	42,227
Total	**437,854**	**89,168**	**435,126**	**85,641**

Group: As at 31 December 2018, out of the total term deposits, term deposits held with commercial banks are in amount of RON 41,156 thousand (2017: RON 1,153 thousand) and collateral deposits are in amount of RON 1,189 thousand (2017: RON 41,074 thousand).

Bank: As at 31 December 2018, out of the total term deposits, term deposits held with commercial banks are in amount of RON 41,156 thousand (2017: RON 1,153 thousand) and collateral deposits are in amount of RON 1,189 thousand (2017: RON 41,074 thousand)

21. LOANS AND ADVANCES TO CUSTOMERS AT AMORTISED COST

The table below presents the carrying amount of credit risk exposures and corresponding impairment allowances as follows:

	Group		Bank	
In RON thousand	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Non-retail				
Gross exposure	12,119,488	9,193,680	11,710,647	8,760,049
Impairment allowance	(314,117)	(284,671)	(291,848)	(262,777)
Net exposure	11,805,371	8,909,009	11,418,799	8,497,272
Retail				
Gross exposure	15,028,580	14,038,931	14,651,824	13,704,864
Impairment allowance	(689,591)	(786,666)	(680,654)	(779,204)
Net exposure	14,338,989	13,252,265	13,971,170	12,925,660
Total net exposure	**26,144,360**	**22,161,274**	**25,389,969**	**21,422,932**

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21. LOANS AND ADVANCES TO CUSTOMERS AT AMORTISED COST (continued)

The tables below present an analysis of changes in the gross carrying amount as follows:

Group
In RON thousand

	2018					
Non-retail	**Stage 1 Collective**	**Stage 2 Collective**	**Stage 3 Individual**	**of which POCI stage 2**	**of which POCI stage 3**	**Total**
Gross carrying amount as at 1 January 2018 under IFRS 9	8,451,938	375,640	347,255	-	91,878	9,174,833
New assets originated or purchased	9,575,630	246,903	99,782	43,956	5,106	9,922,315
Assets derecognised or repaid (excluding write offs)	(6,634,426)	(311,641)	(26,907)	(1,043)	(13,624)	(6,972,974)
Transfers to Stage 1	137,973	(137,973)	-	-	-	-
Transfers to Stage 2	(451,746)	471,369	(19,623)	-	-	-
Transfers to Stage 3	(9,260)	(37,337)	46,597	-	-	-
Decrease in allowance account due to write-offs	-	-	(28,631)	-	-	(28,631)
Foreign exchange adjustments	23,602	272	71	-	11	23,945
Total non-retail gross carrying amount as at 31 December 2018	**11,093,711**	**607,233**	**418,544**	**42,913**	**83,371**	**12,119,488**
Retail						
Gross carrying amount as at 1 January 2018 under IFRS 9	10,931,022	1,901,041	753,691	106,782	127,521	13,585,754
New assets originated or purchased	5,901,935	126,148	30,484	739	5,387	6,058,567
Assets derecognised or repaid (excluding write offs)	(3,494,794)	(716,850)	(245,186)	(8,172)	(22,975)	(4,456,830)
Transfers to Stage 1	2,432,571	(2,553,541)	(8,228)	-	-	(129,198)
Transfers to Stage 2	(3,436,627)	3,551,100	(114,473)	9,367	(9,367)	-
Transfers to Stage 3	(16,291)	(338,451)	354,742	(14,232)	14,232	-
Decrease in allowance account due to write-offs	-	-	(56,729)	-	-	(56,729)
Foreign exchange adjustments	10,973	11,128	4,915	1,477	800	27,016
Total retail gross carrying amount as at 31 December 2018	**12,328,789**	**1,980,575**	**719,216**	**95,961**	**115,598**	**15,028,580**
Total gross carrying amount	**23,422,500**	**2,587,808**	**1,137,760**	**138,874**	**198,969**	**27,148,068**

21. LOANS AND ADVANCES TO CUSTOMERS AT AMORTISED COST (continued)

Bank
In RON thousand

	2018					
Non-retail	**Stage 1 Collective**	**Stage 2 Collective**	**Stage 3 Individual**	**of which POCI stage 2**	**of which POCI stage 3**	**Total**
Gross carrying amount as at 1 January 2018 under IFRS 9	7,952,743	333,659	447,265	-	91,878	8,733,667
New assets originated or purchased	9,380,142	239,566	98,936	43,956	5,106	9,718,644
Assets derecognised or repaid (excluding write offs)	(6,296,227)	(293,851)	(147,031)	(1,043)	(13,624)	(6,737,109)
Transfers to Stage 1	130,363	(130,363)	-	-	-	-
Transfers to Stage 2	(424,192)	443,815	(19,623)	-	-	-
Transfers to Stage 3	(5,434)	(36,252)	41,686	-	-	-
Decrease in allowance account due to write-offs	-	-	(28,500)	-	-	(28,500)
Foreign exchange adjustments	23,602	272	71	-	11	23,945
Total non-retail gross carrying amount as at 31 December 2018	**10,760,997**	**556,846**	**392,804**	**42,913**	**83,371**	**11,710,647**
Retail						
Gross carrying amount as at 1 January 2018 under IFRS 9	10,621,294	1,893,488	744,440	106,782	127,521	13,259,222
New assets originated or purchased	5,592,207	118,595	21,748	739	5,387	5,732,550
Assets derecognised or repaid (excluding write offs)	(3,357,091)	(707,527)	(245,772)	(8,172)	(22,975)	(4,310,390)
Transfers to Stage 1	2,551,533	(2,549,376)	(2,157)	-	-	-
Transfers to Stage 2	(3,437,637)	3,552,110	(114,473)	9,367	(9,367)	-
Transfers to Stage 3	(11,286)	(343,456)	354,742	(14,232)	14,232	-
Decrease in allowance account due to write-offs	-	-	(56,729)	-	-	(56,729)
Foreign exchange adjustments	10,973	11,128	5,070	1,477	800	27,171
Total retail gross carrying amount as at 31 December 2018	**11,969,993**	**1,974,962**	**706,869**	**95,961**	**115,598**	**14,651,824**
Total gross carrying amount	**22,730,990**	**2,531,808**	**1,099,673**	**138,874**	**198,969**	**26,362,471**

21. LOANS AND ADVANCES TO CUSTOMERS AT AMORTISED COST (continued)

The tables below present an analysis of changes in the ECL allowances as follows:

Group
In RON thousand

	2018					
Non-retail	**Stage 1 Collective**	**Stage 2 Collective**	**Stage 3 Individual**	**of which POCI stage 2**	**of which POCI stage 3**	**Total**
ECL allowance as at 1 January 2018 under IFRS 9	18,473	10,197	265,728	-	45,382	294,398
New assets originated or purchased	38,187	3,727	51,695	955	2,214	93,609
Assets derecognised or repaid (excluding write offs)	(23,252)	(2,010)	(49,280)	-	(87)	(74,542)
Transfers to Stage 1	2,746	(2,746)	-	-	-	-
Transfers to Stage 2	(1,048)	1,770	(722)	-	-	-
Transfers to Stage 3	(91)	(582)	673	-	-	-
Impact on year end ECL of exposures transferred between stages during the year	2,077	(4,324)	18,273	-	-	16,026
Unwind of discount	-	1,063	11,892	-	2,480	12,955
Decrease in allowance account due to write-offs	-	-	(28,500)	-	-	(28,500)
Recoveries	-	(148)	(7,262)	-	-	(7,410)
Amounts din write off	150	759	4,309	-	-	5,218
Foreign exchange adjustments	26	23	122	-	52	171
Total non-retail ECL as at 31 December 2018	**37,118**	**7,118**	**269,881**	**955**	**50,041**	**314,117**
Retail						
ECL allowance as at 1 January 2018 under IFRS 9	48,038	244,551	413,641	10,597	32,214	706,230
New assets originated or purchased	37,935	5,193	12,941	-	511	56,069
Assets derecognised or repaid (excluding write offs)	(9,507)	(33,516)	(124,566)	(601)	601	(167,589)
Transfers to Stage 1	250,387	(249,468)	(919)	-	-	-
Transfers to Stage 2	(42,186)	112,356	(70,170)	3,560	(3,560)	-
Transfers to Stage 3	(115)	(75,376)	75,491	(690)	690	-
Impact on year end ECL of exposures transferred between stages during the year	(230,701)	192,995	157,206	(10,083)	(4,942)	119,500
Unwind of discount	(1,573)	7,549	20,612	2,684	7,274	26,588
Decrease in allowance account due to write-offs	-	-	(56,729)	-	-	(56,729)
Recoveries	(7)	(98)	(74,520)	-	-	(74,625)
Amounts written off	436	1,052	32,399	-	-	33,887
Foreign exchange adjustments	1,069	1,630	2,823	275	441	5,522
Total retail ECL as at 31 December 2018	**53,347**	**205,914**	**430,330**	**5,742**	**33,229**	**689,591**
Total impairment allowance	**90,465**	**213,032**	**700,211**	**6,697**	**83,270**	**1,003,708**

21. LOANS AND ADVANCES TO CUSTOMERS AT AMORTISED COST (continued)

Bank
In RON thousand

	2018					
Non-retail	**Stage 1 Collective**	**Stage 2 Collective**	**Stage 3 Individual**	**of which POCI stage 2**	**of which POCI stage 3**	**Total**
ECL allowance as at 1 January 2018 under IFRS 9	17,069	9,620	240,474	-	45,382	267,163
New assets originated or purchased	37,458	3,691	51,692	955	2,214	92,841
Assets derecognised or repaid (excluding write offs)	(23,056)	(1,796)	(48,257)	-	(87)	(73,109)
Transfers to Stage 1	2,746	(2,746)	-	-	-	-
Transfers to Stage 2	(1,048)	1,770	(722)	-	-	-
Transfers to Stage 3	(91)	(582)	673	-	-	-
Impact on year end ECL of exposures transferred between stages during the year	2,336	37	17,976	-	-	20,349
Unwind of discount	-	1,063	11,892	-	2,480	12,955
Decrease in allowance account due to write-offs	-	-	(28,500)	-	-	(28,500)
Recoveries	-	(148)	(6,782)	-	-	(6,930)
Amounts written off	150	759	4,309	-	-	5,218
Foreign exchange adjustments	27	12	110	-	52	149
Total non-retail ECL as at 31 December 2018	**35,441**	**11,069**	**245,338**	**955**	**50,041**	**291,848**
Retail						
ECL allowance as at 1 January 2018 under IFRS 9	46,634	243,974	413,641	10,597	32,214	704,249
New assets originated or purchased	35,559	5,094	12,941	-	511	53,594
Assets derecognised or repaid (excluding write offs)	(11,446)	(33,523)	(124,566)	(601)	601	(169,535)
Transfers to Stage 1	250,594	(249,101)	(1,493)	-	-	-
Transfers to Stage 2	(42,186)	112,356	(70,170)	3,560	(3,560)	-
Transfers to Stage 3	(115)	(75,376)	75,491	(690)	690	-
Impact on year end ECL of exposures transferred between stages during the year	(230,701)	192,995	157,780	(10,083)	(4,942)	120,074
Unwind of discount	49	2,818	20,612	2,684	7,274	23,479
Decrease in allowance account due to write-offs	-	-	(56,729)	-	-	(56,729)
Recoveries	(7)	(98)	(74,520)	-	-	(74,625)
Amounts written off	436	1,052	32,399	-	-	33,887
Foreign exchange adjustments	1,069	1,630	2,823	275	441	5,522
Total retail ECL as at 31 December 2018	**49,457**	**200,867**	**430,330**	**5,742**	**33,229**	**680,654**
Total impairment allowance	**84,898**	**211,936**	**675,668**	**6,697**	**83,270**	**972,502**

21. LOANS AND ADVANCES TO CUSTOMERS AT AMORTISED COST (continued)

The tables below present an analysis of changes in the gross carrying for off-balance sheet exposures as follows:

Group
In RON thousand

	2018			
Non-retail	**Stage 1 Collective**	**Stage 2 Collective**	**Stage 3 Individual**	**Total**
Gross carrying amount as at 1 January 2018 under IFRS 9	8,487,717	109,726	104,087	8,701,530
New assets originated or purchased	6,613,219	12,675	30,611	6,656,505
Assets derecognised or repaid (excluding write offs)	(5,647,693)	(26,732)	(36,080)	(5,710,505)
Transfers to Stage 1	38,555	(38,555)	-	-
Transfers to Stage 2	(184,215)	184,436	(221)	-
Transfers to Stage 3	(16)	(49,102)	49,118	-
Foreign exchange adjustments	24,237	153	75	24,465
Total non-retail gross carrying amount as at 31 December 2018	**9,331,804**	**192,601**	**147,590**	**9,671,995**
Retail				
Gross carrying amount as at 1 January 2018 under IFRS 9	1,872,029	567,045	3,554	2,442,628
New assets originated or purchased	636,712	51,111	371	688,194
Assets derecognised or repaid (excluding write offs)	(341,940)	(2,704)	(6,759)	(351,403)
Transfers to Stage 1	573,446	(573,389)	(57)	-
Transfers to Stage 2	(576,448)	577,907	(1,459)	-
Transfers to Stage 3	(989)	(5,804)	6,793	-
Foreign exchange adjustments	-	12	-	12
Total retail gross carrying amount as at 31 December 2018	**2,162,810**	**614,178**	**2,443**	**2,779,431**
Total gross carrying amount	**11,494,614**	**806,779**	**150,033**	**12,451,426**

Bank
In RON thousand

	2018			
Non-retail	**Stage 1 Collective**	**Stage 2 Collective**	**Stage 3 Individual**	**Total**
Gross carrying amount as at 1 January 2018 under IFRS 9	8,445,176	109,726	104,087	8,658,989
New assets originated or purchased	6,558,801	12,539	30,611	6,601,951
Assets derecognised or repaid (excluding write offs)	(5,604,170)	(26,732)	(36,080)	(5,666,982)
Transfers to Stage 1	38,555	(38,555)	-	-
Transfers to Stage 2	(184,215)	184,436	(221)	-
Transfers to Stage 3	(16)	(49,102)	49,118	-
Foreign exchange adjustments	24,237	153	75	24,465
Total non-retail gross carrying amount as at 31 December 2018	**9,278,368**	**192,465**	**147,590**	**9,618,423**
Retail				
Gross carrying amount as at 1 January 2018 under IFRS 9	1,872,029	567,045	3,554	2,442,628
New assets originated or purchased	636,712	51,111	371	688,194
Assets derecognised or repaid (excluding write offs)	(341,940)	(2,704)	(6,759)	(351,403)
Transfers to Stage 1	573,446	(573,389)	(57)	-
Transfers to Stage 2	(576,448)	577,907	(1,459)	-
Transfers to Stage 3	(989)	(5,804)	6,793	-
Foreign exchange adjustments	-	12	-	12
Total retail gross carrying amount as at 31 December 2018	**2,162,810**	**614,178**	**2,443**	**2,779,431**
Total gross carrying amount	**11,441,178**	**806,643**	**150,033**	**12,397,854**

21. LOANS AND ADVANCES TO CUSTOMERS AT AMORTISED COST (continued)

The tables below present an analysis of changes in the ECL for off-balance sheet exposures allowances as follows:

Group
In RON thousand

	31 December 2018			
Non-retail	**Stage 1 Collective**	**Stage 2 Collective**	**Stage 3 Individual**	**Total**
ECL allowance as at 1 January 2018 under IFRS 9	6,916	812	23,770	31,498
New assets originated or purchased	5,957	90	6,346	12,393
Assets derecognised or repaid (excluding write offs)	(1,008)	(250)	(5,958)	(7,216)
Transfers to Stage 1	316	(316)	-	-
Transfers to Stage 2	(309)	309	-	-
Transfers to Stage 3	-	(751)	751	-
Impact on changes due to change in credit risk (net)	(635)	1,185	22,812	23,362
Foreign exchange adjustments	21	11	59	91
Total non-retail ECL as at 31 December 2018	**11,258**	**1,090**	**47,780**	**60,128**
Retail				
ECL allowance as at 1 January 2018 under IFRS 9	2,415	4,811	2,494	9,720
New assets originated or purchased	1,887	1,515	1,192	4,594
Assets derecognised or repaid (excluding write offs)	(233)	(603)	(467)	(1,303)
Transfers to Stage 1	4,827	(4,805)	(22)	-
Transfers to Stage 2	(749)	1,449	(700)	-
Transfers to Stage 3	(2)	(119)	121	-
Impact on changes due to change in credit risk (net)	(5,730)	2,376	(381)	(3,735)
Foreign exchange adjustments	-	-	-	-
Total retail ECL as at 31 December 2018	**2,415**	**4,624**	**2,237**	**9,276**
Total impairment allowance	**13,673**	**5,714**	**50,017**	**69,404**

Bank
In RON thousand

	31 December 2018			
Non-retail	**Stage 1 Collective**	**Stage 2 Collective**	**Stage 3 Individual**	**Total**
ECL allowance as at 1 January 2018 under IFRS 9	6,916	812	23,770	31,498
New assets originated or purchased	5,957	90	6,346	12,393
Assets derecognised or repaid (excluding write offs)	(1,008)	(250)	(5,958)	(7,216)
Transfers to Stage 1	316	(316)	-	-
Transfers to Stage 2	(309)	309	-	-
Transfers to Stage 3	-	(751)	751	-
Impact on changes due to change in credit risk (net)	(635)	1,185	22,812	23,362
Foreign exchange adjustments	21	11	59	91
Total non-retail ECL as at 31 December 2018	**11,258**	**1,090**	**47,780**	**60,128**
Retail				
ECL allowance as at 1 January 2018 under IFRS 9	2,415	4,811	2,494	9,720
New assets originated or purchased	1,887	1,515	1,192	4,594
Assets derecognised or repaid (excluding write offs)	(233)	(603)	(467)	(1,303)
Transfers to Stage 1	4,827	(4,805)	(22)	-
Transfers to Stage 2	(749)	1,449	(700)	-
Transfers to Stage 3	(2)	(119)	121	-
Impact on changes due to change in credit risk (net)	(5730)	2,376	(381)	(3,735)
Foreign exchange adjustments	-	-	-	-
Total retail ECL as at 31 December 2018	**2,415**	**4,624**	**2,237**	**9,276**
Total impairment allowance	**13,673**	**5,714**	**50,017**	**69,404**

21. LOANS AND ADVANCES TO CUSTOMERS AT AMORTISED COST (continued)

The allowances for impairment losses on loans and advances to customers can be further analyzed as follows:

	31 December 2017	
In RON thousand	**Group**	**Bank**
Retail customers		
Specific allowances for impairment		
Balance as at the beginning of the year	556,320	556,320
Impairment allowance for the year		
Charge for the year	464,377	459,346
Release	(126,172)	(122,581)
Decreases due to amounts taken against allowances	(274,783)	(280,146)
Effect of foreign currencies movements	(3,507)	(3,465)
Balance at the end of the year	**616,235**	**609,474**
Collective allowances for impairment		
Balance as at the beginning of the year	247,324	247,324
Impairment allowance for the year		
Charge for the year	103,125	103,448
Release	(179,166)	(179,705)
Effect of foreign currencies movements	(1,337)	(1,337)
Other adjustments	485	-
Balance at the end of the year	**170,431**	**169,730**
Total retail customer	**786,666**	**779,204**
Corporate customers		
Specific allowances for impairment		
Balance as at the beginning of the year	390,888	390,888
Impairment allowance for the year		
Charge for the year	96,689	93,597
Release	(34,365)	(31,620)
Decreases due to amounts taken against allowances	(210,690)	(228,468)
Effect of foreign currencies movements	3,527	3,262
Balance at the end of the year	**246,049**	**227,659**
Collective allowances for impairment		
Balance as at the beginning of the year	40,529	40,529
Impairment allowance for the year		
Charge for the year	24,314	23,217
Release	(29,658)	(28,579)
Effect of foreign currencies movements	(41)	(49)
Other adjustments	3,478	-
Balance at the end of the year	**38,622**	**35,118**
Total corporate customers	**284,671**	**262,777**
Total allowances for impairment	**1,071,337**	**1,041,981**

21. LOANS AND ADVANCES TO CUSTOMERS AT AMORTISED COST (continued)

Non-Performing exposure in accordance with EBA/ITS/2013/03/rev1 Regulation from July 24th 2014 with subsequent amendments can be further analysed as follows:

	Group		Bank	
In RON thousand	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Exposure	**1,333,656**	**1,714,857**	**1,297,909**	**1,678,681**
out of which retail:	905,581	1,225,751	905,225	1,225,721
out of which non-retail:	428,075	489,106	392,684	452,960
Impairment allowance	**725,246**	**861,106**	**700,625**	**836,462**
out of which retail:	455,376	607,640	455,287	607,639
out of which non-retail:	269,870	253,466	245,338	228,823
Net Book Value	**608,410**	**853,751**	**597,284**	**842,219**
out of which retail:	450,205	618,111	449,938	618,082
out of which non-retail:	158,205	235,640	147,346	224,137

The following tables provide a summary of the Group and Bank forborne exposures and corresponding ECL:

	31 December 2018			
	Group		Bank	
In RON thousand	Gross carrying amount for retail forborne	Gross carrying amount for non-retail forborne	Gross carrying amount for retail forborne	Gross carrying amount for non-retail forborne
Modification to term and conditions	73,955	90,996	74,016	88,355
Refinancing	23,553	2,310	23,553	2,310
Total performing forborne loans	**97,508**	**93,306**	**97,569**	**90,665**
Modification to term and conditions	507,606	227,297	507,606	207,929
Refinancing	24,646	700	24,646	-
Total non-performing forborne loans	**532,252**	**227,997**	**532,252**	**207,929**
Total forborne loans	**629,760**	**321,303**	**629,821**	**298,594**

	31 December 2018			
	Group		Bank	
In RON thousand	Impairment allowance of retail forborne loans	Impairment allowance of non-retail forborne loans	Impairment allowance of retail forborne loans	Impairment allowance of non-retail forborne loans
Modification to term and conditions	(8,762)	(4,892)	(8,896)	(4,758)
Total impairment allowance of performing forborne loans	**(8,762)**	**(4,892)**	**(8,896)**	**(4,758)**
Modification to term and conditions	(188,742)	(139,626)	(188,742)	(123,762)
Refinancing	(10,803)	(775)	(10,803)	-
Total impairment allowance of non performing forborne loans	**(199,545)**	**(140,401)**	**(199,545)**	**(123,762)**
Total impairment allowance of forborne loans	**(208,307)**	**(145,293)**	**(208,441)**	**(128,520)**

21. LOANS AND ADVANCES TO CUSTOMERS AT AMORTISED COST (continued)

Financial lease

The Group acts as a lessor in financial leasing contracts for vehicles, equipment and real estate. Leasing contracts are denominated in EUR or RON and with a contract tenor of 1 to 8 years, in the case of vehicle lease contracts and 1 to 10 years in case or real estate lease. The transfer of ownership rights is at the maturity of the contract. The interest applicable to lease contracts is variable or fixed and is computed for the entire tenor of the contract. The corresponding receivables are collateralized with the object of the lease contract, as well as with other type of collaterals. Loans and advances to Group's customers include the following receivables from lease contracts:

In RON thousand	**31 December 2018**	**31 December 2017**
Gross lease investment :	983,829	959,870
Deferred financial revenue:	(60,924)	(57,666)
Net lease investment	**922,905**	**902,204**
Gross lease investment, according to the remaining maturity		
Less than one year	52,589	89,606
1 to 5 years	862,713	805,846
Over 5 years	68,527	64,418
	983,829	**959,870**
Net lease investment, according to the remaining maturity:		
Less than one year	51,818	87,992
1 to 5 years	809,103	756,648
Over 5 years	61,983	57,564
	922,905	**902,204**

22. INVESTMENT SECURITIES

	Group		Bank	
In RON thousand	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Investment securities at fair value through profit or loss				
Treasury securities issued by the Government of Romania *(i)*	-	610,812	-	610,812
Bonds issued by the Government of Romania *(ii)*	-	235,032	-	235,032
Bonds issued by other public sector	-	149,003	-	149,003
Bonds issued by Multilateral Development Banks	-	9,511	-	9,511
Mutual funds	-	17,589	-	-
Total investment securities at fair value through profit or loss	**-**	**1,021,947**	**-**	**1,004,358**
Investment securities available-for-sale				
Bonds issued by other public sector	-	289,003	-	289,003
Treasury securities issued by the Government of Romania *(i)*	-	629,583	-	629,583
Bonds issued by the Government of Romania *(ii)*	-	1,893,110	-	1,893,111
Unquoted equity instruments *(iii)*	-	4,252	-	4,023
Quoted equity instruments	-	29,522	-	29,522
Bonds issued by Multilateral Development Banks	-	85,164	-	85,164
Total investment securities available-for-sale	**-**	**2,930,634**	**-**	**2,930,406**
Investment securities held-to-maturity				
Bonds issued by private sector issuers	-	5,155	-	-
Bonds issued by the Government of Romania *(ii)*	-	1,292,078	-	1,275,730
Total investment securities held-to-maturity	**-**	**1,297,233**	**-**	**1,275,730**
Total investment securities	**-**	**5,249,814**	**-**	**5,210,494**

i) Treasury bills issued by the Government of Romania include discount securities denominated in RON. Discount treasury bills bear fixed interest rates.

ii) Bonds issued by the Government of Romania include bonds issued by the Ministry of Finance denominated in RON, EUR and USD, bearing fixed interest rate between 1.25% p.a. and 6.75% p.a. As at 31 December 2017, bonds issued by the Government of Romania amounting to RON 59,880 are pledged as security in order to comply with National Bank of Romania prudential regulations for settlement of inter-banking operations.

iii) Unquoted equity instruments represent equity investments that do not have a quoted price in an active market for an identical instrument and whose fair value cannot be reliably measured. Any fair value measurement would require significant management judgement due to the difficulties in obtaining information that might be relied on to use in valuation. Therefore, these equity investments are measured at cost less impairment, if any.

As of December 31, 2017 the carrying amount of unquoted equity instruments held by the Group amounted to RON 4,252 thousand. No impairment losses have been recognized in respect of these instruments.

Group: Net income from financial investments for the period ended December 31, 2017 are in amount of RON 5,921 thousand.

22. INVESTMENT SECURITIES (continued)

Bank: Net income from financial investments for the period ended December 31, 2017 are in amount of RON 6,128 thousand.

The adoption of IFRS 9 provisions has brought changes to the classification and measurement of financial assets, as such the former category “Investment securities” presented as of 31 December 2017 is shown starting with 1 January 2018 under the following captions:

- Investment securities at fair value through other comprehensive income;
- Equity instruments at fair value through other comprehensive income;
- Investment securities at amortised cost.

23. INVESTEMENTS SECURITIES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

"Investment securities at fair value through profit or loss" and "Investment securities available-for-sale" became “Investment securities at fair value through other comprehensive income”.

	Group		Bank	
In RON thousand	**31 December 2018**	**31 December 2017**	**31 December 2018**	**31 December 2017**
Investment securities at fair value through other comprehensive income out of which:				
Bonds issued by other public sector	496,021	-	496,021	-
Bonds issued by the Government of Romania*	2,588,347	-	2,588,347	-
Bonds issued by Multilateral Development Banks	79,101	-	79,101	-
Bonds issued by credit institutions	40,838	-	40,838	-
Total investment securities at fair value through other comprehensive income	**3,204,307**	**-**	**3,204,307**	**-**

Bonds issued by the Government of Romania include bonds issued by the Ministry of Finance denominated in RON, EUR and USD, bearing fixed interest rate between 1.25% p.a. and 6.75% p.a.
The total impaiment allowance as of 31 December 2018 is amounting to RON 1,316 thousand.

24. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Group		Bank	
In RON thousand	**31 December 2018**	**31 December 2017**	**31 December 2018**	**31 December 2017**
Equity instruments at fair value through other comprehensive income out of which:				
Unquoted equity instruments	14,133	-	14,133	-
Quoted equity instruments	33,890	-	33,890	-
Total equity instruments at fair value through other comprehensive income	**48,023**	**-**	**48,023**	**-**

IFRS 9 removes the exception to measure unquoted equity investments at cost when the fair value cannot be determined reliably. Upon initial recognition, the Group elected to classify irrevocably its equity investments, other than subsidiaries, joint ventures and associates as equity instruments at FVOCI with no recycling of gains or losses o profit or loss on derecognition.

24. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (continued)

Gains and losses on these equity instruments are never recycled to profit. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. The Group received dividends at 31 December 2018 amounting to RON 4,493 thousand.
Equity instruments at FVOCI are not subject to an impairment assessment.

25. INVESTMENTS SECURITIES AT AMORTISED COST

"Investment securities held-to-maturity" became "Investment securities at amortised cost".

	Group		Bank	
In RON thousand	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Investment securities at amortised cost out of which:				
Bonds issued by credit institutions	3,850	-	-	-
Bonds issued by the Government of Romania quoted	2,158,305	-	2,142,347	-
Bonds issued by the Government of Romania unquoted	171,212	-	165,724	-
Total investment securities at amortised cost	**2,333,367**	**-**	**2,308,071**	**-**

At 31 December 2018 The Group has one hedge relationship and the hedged instrument is a debt security at amortised cost. The carrying amount of the hedged item is RON 29,505 thousand.

As at 31 December 2018, bonds issued by the Government of Romania amounting to RON 101,393 are pledged as security in order to comply with National Bank of Romania prudential regulations for settlement of inter-banking operations.

26. INVESTMENT IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Associates and joint ventures

	Group		Bank	
In RON thousand	2018	2017	2018	2017
Balance at 1 January	**38,990**	**85,893**	**166,524**	**123,799**
Additions	-	-	-	42,725
Disposals	-	-	(30)	-
Reclassification	-	(47,969)	-	-
Other comprehensive income	42	(419)	-	-
Group's share of gain from associates	1,027	1,485	-	-
Total	**40,059**	**38,990**	**166,494**	**166,524**
Impairment allowance	(15,079)	(15,079)	(61,145)	(61,145)
Balance at 31 December	**24,980**	**23,911**	**105,349**	**105,379**

In March 2017 the Bank gained control on Raiffeisen Leasing IFN S.A and on ICS Raiffeisen Leasing S.R.L.through acquisition of additional 49.99% of the participation in Raiffeisen Leasing IFN S.A. The contract was signed on August 8th 2016 and all the necessary approval and contract covenants were fulfilled in March 2017. The consideration paid was Euro 9,378 thousands (RON 42,724 thousands) and the fair value of RLRO group was RON 47,969 thousands generating a negative good will in amount of RON 5,245 thousands.

26. INVESTMENT IN SSUBSIDIARIES, ASSOCIATES AND JOINT VENTURES (continued)

The Group's interests in its associates and joint ventures that are unlisted are as follows:

Investment in associates

In RON thousands	Assets	Liabilities	Revenues	Interest income	Interest expense	Income taxes	Profit	Net assets	Interest held%	% Net assets	Carrying amount
31 December 2018											
Fondul de Garantare a Creditului Rural IFN SA	740,712	687,986	32,310	2,112	(787)	(2,054)	2,779	52,726	33.33%	17,574	17,861
31 December 2017											
Fondul de Garantare a Creditului Rural IFN SA	734,525	683,711	22,060	761	(318)	(205)	4,092	50,814	33.33%	16,936	16,934

Investment in joint ventures

In RON thousands	Assets	Liabilities	Revenues	Interest income	Interest expense	Income taxes	Profit	Net assets	Interest held%	% Net assets	Carrying amount
31 December 2018											
Raiffeisen Banca pentru Locuinte S.A.	513,637	447,003	23,197	19,525	(7,965)	(83)	301	66,634	33.33%	22,206	7,406
31 December 2017											
Raiffeisen Banca pentru Locuinte S.A.	625,246	559,048	28,247	23,014	(10,956)	(411)	(5,140)	66,198	33.33%	22,060	6,981

27. FINANCIAL ASSETS MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS

The table below shows the split of total financial assets mandatorily at fair value through profit or loss as of December 31, 2018.

	Group		Bank	
In RON thousand	2018	2017	2018	2017
Loans and advances to customers	368,508	-	368,508	-
Equity instruments	11,720	-	-	-
Total	**380,228**	**-**	**368,508**	**-**

Group: Net gains on non-trading financial assets mandatorily at fair value through profit or loss for the period ended December 31st, 2018 are in amount of RON 38,811 thousand.

Bank: Net gains on non-trading financial assets mandatorily at fair value through profit or loss for the period ended December 31st, 2018 are in amount of RON 38,481 thousand.

28. FAIR VALUE CHANGES OF THE HEDGED ITEMS-HEDGE ACCOUNTING

The Group applies the micro fair value hedge and at 31 December 2018 has one hedge relationship. The Bank uses as hedging instruments an interest rate swap with a notional contract amount of RON 27,983 thousand.The carrying amount of the hedged item, a debt security at amortised cost, is RON 29,505 thousand. The total accumulated amount of fair value adjustments of hedge item and hedging instrument are disclosed under “Fair value changes of the hedged items-hedge accounting” position, respectively “Derivatives – hedge accounting position” in the statement of financial position. The net gain resulted from the hegde relationship at 31 December 2018 is RON 145 thousand.

29. OTHER ASSETS

	Group		Bank	
In RON thousand	31 December 2018	31 December 2017	31 December 2018	31 Decembe r 2017
Prepayments	52,939	41,646	51,210	40,871
Clearing claims from payment transfer business *(i)*	101,130	136,053	101,130	136,053
Receivable from sale of loans	4,843	3,078	4,843	3,078
Sundry debtors *(ii)*	85,931	49,457	92,984	57,994
Inventories	3,449	2,893	3,449	2,893
Repossessed assets	31,240	29,297	24,902	28,977
Other	23,407	25,404	25	-
Total	**302,939**	**287,828**	**278,543**	**269,866**

29. OTHER ASSETS (continued)

i) Clearing claims from payment transfer business include amounts to be settled as of December 31, like: cards transactions of RON 96,878 thousand (2017: RON 129,553 thousand), sales and purchase of cash transactions of RON 2,177 thousand (2017: RON 412 thousand), Western Union transactions in course of settlement of RON *7,236* thousand (2017: RON 5,943 thousand) and others.

ii) **Group**: Sundry debtors balance is presented at net book value, respectively gross book value in amount of 126.177 RON thousand (2017: 88,178 RON thousand) decreased with impairment in amount of RON 40.246 thousand (2017: RON 38,721 thousand).
Bank: Sundry debtors balance is presented at net book value, respectively gross book value in amount of 133.230 RON thousand (2017: 97,382 RON thousand) decreased with impairment in amount of RON 40.246 thousand (2017: RON 39,388 thousand).

In the tables below is presented the split of other assets to customers by their quality:

	Group		Bank	
In RON thousand	**31 December 2018**	**31 December 2017**	**31 December 2018**	**31 December 2017**
Financial assets	190,564	204,350	172,504	186,388
Non-financial assets	112,375	83,478	106,039	83,478
Total	**302,939**	**287,828**	**278,543**	**269,866**

Of which:

	Group		Bank	
In RON thousand	**31 December 2018**	**31 December 2017**	**31 December 2018**	**31 December 2017**
Neither past due nor impaired	187,072	203,222	169,012	185,259
Past due but not impaired	0	2	0	2
Impaired assets	3,492	1,126	3,492	1,127
Total	**190,564**	**204,350**	**172,504**	**186,388**

30. DEFERRED TAX

Deferred tax assets as at December 31, 2018 are attributable to the items detailed in the table below:

Group

In RON thousand	**Assets**	**Liabilities**	**Net**	**Deferred tax asset/(liability)**
Property, plant and equipment and intangible assets	1,005	74,332	(73,327)	(11,732)
Other liabilities	106,010	802	105,208	16,833
Valuation reserve financial assets (AFVOCI)	4,080	31,374	(27,294)	(4,367)
Provisions for liabilities and charges	171,144	291	170,853	27,337
Total	**282,239**	**106,799**	**175,440**	**28,071**

30. DEFERRED TAX (continued)

Bank

In RON thousand	Assets	Liabilities	Net	Deferred tax asset/(liability)
Property, plant and equipment and intangible assets	1,005	74,332	-73,327	-11,732
Other liabilities	106,010	802	105,208	16,833
Valuation reserve financial assets (AFVOCI)	4,080	31,374	-27,294	-4,367
Provisions for liabilities and charges	160,979	291	160,688	25,710
Total	**272,074**	**106,799**	**165,275**	**26,444**

Deferred tax assets as at December 31, 2017 are attributable to the items detailed in the table below:

Group

In RON thousand	Assets	Liabilities	Net	Deferred tax asset/(liability)
Property, plant and equipment and intangible assets	1,174	89,313	(88,139)	(14,103)
Other liabilities	107,900	2,586	105,314	16,850
Valuation reserve financial assets (AFS)	17,270	8,588	8,682	1,389
Provisions for liabilities and charges	81,732	291	81,441	13,031
Total	**208,076**	**100,778**	**107,298**	**17,167**

Bank

In RON thousand	Assets	Liabilities	Net	Deferred tax asset/(liability)
Property, plant and equipment and intangible assets	1,174	89,313	(88,139)	(14,102)
Other liabilities	107,900	2,586	105,314	16,850
Valuation reserve financial assets (AFS)	17,270	8,588	8,682	1,389
Provisions for liabilities and charges	80,999	291	80,708	12,913
Total	**207,343**	**100,778**	**106,565**	**17,050**

Expenses and income deferred tax as at December 31, 2018 are attributable to the items detailed in the table below:

	Group		Bank	
In RON thousand	**2018**	**2017**	**2018**	**2017**
Investment in subsidiaries, associates and joint ventures	-	-	-	267
Property, plant and equipment and intangible assets	2,371	(2,510)	2,370	(2,777)
Valuation reserve financial assets	43	-	43	-
Other liabilities	-307	5,185	-327	4,696
Provisions for liabilities and charges	14,306	(412)	12,797	(419)
Deferred tax income	**16,413**	**2,263**	**14,883**	**1,767**

Deferred tax related to items recognised in other comprehensive income during the year is due to unrealised gain/loss on financial assets (AFVOCI) in 2018 and to available for sale financial assets in 2017

31. PROPERTY, PLANT AND EQUIPMENT

Group

In RON thousand	Land and buildings	Furniture and computer equipment	Motor vehicles	Assets in progress	Total
Cost					
Balance at 1 January 2017	**202,386**	**470,757**	**33,396**	**29,773**	**736,312**
Additions	-	9,339	1,943	44,288	55,570
Transfers	6,133	42,464	5,398	(53,995)	-
Disposals	(5,154)	(39,610)	(5,926)	(1,180)	(51,870)
Change in consolidation	39	158	754	-	951
Balance at 31 December 2017	**203,404**	**483,108**	**35,565**	**18,886**	**740,963**
Balance at 1 January 2018	**203,404**	**483,108**	**35,565**	**18,886**	**740,963**
Additions	-	4,968	1,653	51,504	58,125
Transfers	6,116	37,105	-	(43,221)	-
Disposals	(9,454)	(119,458)	(2,470)	(14,964)	(146,346)
Balance at 31 December 2018	**200,066**	**405,723**	**34,748**	**12,205**	**652,742**
Depreciation and impairment losses					
Balance at 1 January 2017	**155,354**	**328,709**	**16,157**	**-**	**500,220**
Charge for the year	8,773	46,372	5,296	-	60,441
Disposals	(4,916)	(31,123)	(4,741)	-	(40,780)
Balance at 31 December 2017	**159,211**	**343,958**	**16,712**	**-**	**519,881**
Balance at 1 January 2018	**159,211**	**343,958**	**16,712**	**-**	**519,881**
Charge for the year	7,815	41,061	5,590	-	54,466
Disposals	(8,898)	(113,864)	(2,117)	-	(124,879)
Balance at 31 December 2018	**158,128**	**271,155**	**20,185**	**-**	**449,468**
Carrying amounts					
At 1 January 2017	**47,032**	**142,048**	**17,239**	**29,773**	**236,092**
At 31 December 2018	**44,193**	**139,150**	**18,853**	**18,886**	**221,082**
At 1 January 2018	**44,193**	**139,150**	**18,853**	**18,886**	**221,082**
At 31 December 2018	**41,938**	**134,568**	**14,563**	**12,205**	**203,274**

31. PROPERTY, PLANT AND EQUIPMENT (continued)

Bank

In RON thousand	Land and buildings	Furniture and computer equipment	Motor vehicles	Assets in progress	Total
Cost					
Balance at 1 January 2017	**202,386**	**470,745**	**32,660**	**29,773**	**735,564**
Additions	-	8,328	1,205	44,288	53,821
Transfers	6,133	42,464	5,398	(53,995)	-
Disposals	(5,137)	(38,368)	(5,359)	(1,180)	(50,044)
Balance at 31 December 2017	**203,382**	**483,169**	**33,904**	**18,886**	**739,341**
Balance at 1 January 2018	**203,382**	**483,169**	**33,904**	**18,886**	**739,341**
Additions	-	4,879	349	51,504	56,732
Transfers	6,116	37,105	-	(43,221)	-
Disposals	(9,454)	(119,115)	(1,388)	(14,964)	(144,921)
Balance at 31 December 2018	**200,044**	**406,038**	**32,865**	**12,205**	**651,152**
Depreciation and impairment losses					
Balance at 1 January 2017	**155,354**	**328,705**	**15,826**	**-**	**499,885**
Charge for the year	8,756	46,550	4,794	-	60,100
Disposals	(4,984)	(29,258)	(5,887)	-	(40,129)
Balance at 31 December 2017	**159,126**	**345,997**	**14,733**	**-**	**519,856**
Balance at 1 January 2018	**159,126**	**345,997**	**14,733**	**-**	**519,856**
Charge for the year	7,815	40,941	5,042	-	53,798
Disposals	(8,898)	(113,610)	(1,111)	-	(123,619)
Balance at 31 December 2018	**158,043**	**273,328**	**18,664**	**-**	**450,035**
Carrying amounts					
At 1 January 2017	**47,032**	**142,040**	**16,834**	**29,773**	**235,679**
At 31 December 2017	**44,256**	**137,172**	**19,171**	**18,886**	**219,485**
At 1 January 2018	**44,256**	**137,172**	**19,171**	**18,886**	**219,485**
At 31 December 2018	**42,001**	**132,710**	**14,201**	**12,205**	**201,117**

Group: Purchases of property, plant and equipment during year 2018 were in amount of RON 58,125 thousand (2017: RON 55,570 thousand).

Bank: Purchases of property, plant and equipment during year 2018 were in amount of RON 56,732 thousand (2017: RON 53,821 thousand).

32. INTANGIBLE ASSETS

Group

In RON thousand	Purchased Software	Assets in progress	Total
Cost			
Balance at 1 January 2017	**388,388**	**44,577**	**432,965**
Additions	518	81,270	81,788
Transfers	45,536	(45,536)	-
Change in consolidation	1,956	84	2,040
Disposals	(17,950)	(705)	(18,655)
Balance at 31 December 2017	**418,448**	**79,690**	**498,138**
Balance at 1 January 2018	**418,448**	**79,690**	**498,138**
Additions	932	81,580	82,512
Transfers	82,941	(82,941)	-
Disposals	(4,919)	(713)	(5,632)
Balance at 31 December 2018	**497,402**	**77,616**	**575,018**
Amortization and impairment losses			
Balance at 1 January 2017	**313,551**	**-**	**313,551**
Charge for the year	40,162	-	40,162
Disposals	(17,693)	-	(17,693)
Balance at 31 December 2017	**336,020**	**-**	**336,020**
Balance at 1 January 2018	**336,020**	**-**	**336,020**
Charge for the year	62,847	-	62,847
Disposals	(4,964)	-	(4,964)
Balance at 31 December 2018	**393,903**	**-**	**393,903**
Carrying amounts			
At 1 January 2017	**74,837**	**44,577**	**119,414**
At 31 December 2017	**82,428**	**79,690**	**162,118**
At 1 January 2018	**82,428**	**79,690**	**162,118**
At 31 December 2018	**103,499**	**77,616**	**181,115**

32. INTANGIBLE ASSETS (continued)

Bank

In RON thousand	Purchased Software	Assets in progress	Total
Cost			
Balance at 1 January 2017	**387,816**	**44,171**	**431,987**
Additions	-	80,909	80,909
Transfers	45,536	(45,536)	-
Disposals	(14,835)	(439)	(15,274)
Balance at 31 December 2017	**418,517**	**79,105**	**497,622**
Balance at 1 January 2018	**418,517**	**79,105**	**497,622**
Additions	-	100,226	100,226
Transfers	82,941	(82,941)	-
Disposals	(4,865)	(19,789)	(24,654)
Balance at 31 December 2018	**496,593**	**76,601**	**573,194**
Amortization and impairment losses			
Balance at 1 January 2017	**312,751**	**-**	**312,751**
Charge for the year	39,452	-	39,452
Disposals	(14,578)	-	(14,578)
Balance at 31 December 2017	**337,625**	**-**	**337,625**
Balance at 1 January 2018	**337,625**	**-**	**337,625**
Charge for the year	62,072	-	62,072
Disposals	(4,964)	-	(4,964)
Balance at 31 December 2018	**394,733**	**-**	**394,733**
Carrying amounts			
At 1 January 2017	**75,065**	**44,171**	**119,236**
At 31 December 2017	**80,892**	**79,105**	**159,997**
At 1 January 2018	**80,892**	**79,105**	**159,997**
At 31 December 2018	**101,860**	**76,601**	**178,461**

Group: Purchases of intangible assets during year 2018 were in amount of RON 82,512 thousand (2017: RON 81,788 thousand).

Bank: Purchases of intangible assets during year 2018 were in amount of RON 100,226 thousand (2017: RON 80,909 thousand).

33. DEPOSITS FROM BANKS

In RON thousand	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Payable on demand	389,456	428,517	389,456	428,517
Sight deposits	34,000	60,000	34,000	60,000
Term deposits	112,614	19,772	112,614	19,772
Total	**536,070**	**508,289**	**536,070**	**508,289**

34. DEPOSITS FROM CUSTOMERS

In RON thousand	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Payable on demand				
Retail customers	13,990,884	11,495,876	13,990,884	11,495,876
Non-retail customers	6,382,265	6,329,519	6,424,635	6,370,268
	20,373,149	**17,825,395**	**20,415,519**	**17,866,144**
Term deposits				
Retail customers	9,159,442	9,263,462	9,159,442	9,263,462
Non-retail customers	3,517,463	2,605,958	3,517,463	2,605,958
	12,676,905	**11,869,420**	**12,676,905**	**11,869,420**
Savings accounts				
Retail customers	1,149	1,184	1,149	1,184
	1,149	**1,184**	**1,149**	**1,184**
Total	**33,051,203**	**29,695,999**	**33,093,573**	**29,736,748**

35. TOTAL LONG TERM DEBT

In RON thousand	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Commercial banks	543,915	576,317	-	-
Multilateral Development Banks	193,010	191,900	35,301	76,859
Other financial institutions	72,973	163,741	72,973	163,741
Total loans from banks and financial institutions	**809,898**	**931,958**	**108,274**	**240,600**

The loans received from banks and other financial institutions are denominated in EUR, CHF and RON, with a final maturity which varies between May 2019 and December 2026.

In RON thousand	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Senior loans from banks and financial institutions	809,898	931,958	108,274	240,600
Of which unsecured	*616,882*	*739,880*	*72,966*	*163,565*
Debt securities issued	512,458	512,501	516,179	516,223
Subordinated liabilities	855,678	849,017	855,678	849,017
Total	**2,178,034**	**2,293,476**	**1,480,131**	**1,605,840**

35. TOTAL LONG TERM DEBT (continued)

The below table shows the split of total long term debt by contractual maturities as of December 31, 2018:

Grup

In RON thousand	Less than 1 year	Over 1 year	Total
Senior loans from banks and financial institutions	322,977	486,921	809,898
Of which unsecured	*239,495*	*377,387*	*616,882*
Debt securities issued	512,458	-	512,458
Subordinated liabilities	5,519	850,159	855,678
Total	**840,954**	**1,337,080**	**2,178,034**

Bank

In RON thousand	Less than 1 year	Over 1 year	Total
Senior loans from banks and financial institutions	63,545	44,729	108,274
Of which unsecured	*36,719*	*36,247*	*72,966*
Debt securities issued	516,179	-	516,179
Subordinated liabilities	5,519	850,159	855,678
Total	**585,243**	**894,888**	**1,480,131**

The below table shows the split of total long term debt by contractual maturities as of December 31, 2017:

Grup

In RON thousand	Less than 1 year	Over 1 year	Total
Senior loans from banks and financial institutions	410,517	521,441	931,958
Of which unsecured	*287,814*	*452,066*	*739,880*
Debt securities issued	16,613	495,888	512,501
Subordinated liabilities	122,274	726,743	849,017
Total	**549,404**	**1,744,072**	**2,293,476**

Bank

In RON thousand	Less than 1 year	Over 1 year	Total
Senior loans from banks and financial institutions	127,301	113,299	240,600
Of which unsecured	*85,271*	*78,294*	*163,565*
Debt securities issued	16,734	499,489	516,223
Subordinated liabilities	122,274	726,743	849,017
Total	**266,309**	**1,339,531**	**1,605,840**

Long term debt includes senior debt issued, senior loans and subordinated loans from banks. Senior debt has greater seniority in the Bank's liabilities structure than subordinated debt and regulatory capital instruments as regulated by applicable insolvency law.

35. TOTAL LONG TERM DEBT (continued)

As of December 31, 2018, the Bank has outstanding long term debt in the form of debt securities issued, which are tradeable on Bucharest Stock Exchange (BSE).

Group: The balance of debt securities issued as at December 31, 2018, including accrued interest, is in amount of RON 512,458 thousand (December 31, 2017: RON 512,501thousand).

Bank: The balance of debt securities issued as at December 31, 2018, including accrued interest, is in amount of RON 516,179 thousand (December 31, 2017: RON 516,223 thousand).

The Group takes all the necessary measures in order to ensure compliance with the financial covenants that may be attached to the loans received from banks and other financial institutions. Consequently, there have been no breaches in the financial covenants of any loans from banks and other financial institutions in the analyzed period.

The subordinated loans in balance as of December 31, 2018 were in amount of EUR 145,000 thousand and CHF 42,000 thousand (December 31, 2017: EUR 145,000 thousand; CHF 42,000). The balance of subordinated liabilities as at December 31, 2018, in RON equivalents, including accrued interest is RON 855,678 thousand (December 31, 2017: RON 849,017 thousand).

As of December 31, 2018 the Bank has commitments received from credit institutions in amount of EUR 50,000 thousand (December 31, 2017: EUR 150,000 thousand).

36. OTHER LIABILITIES

	Group		Bank	
In RON thousand	**31 December 2018**	**31 December 2017**	**31 December 2018**	**31 December 2017**
Amounts due to state budget for social security	34,560	25,989	34,292	25,721
Short-term employee benefits	71,852	63,255	71,852	62,545
Accrual for suppliers	116,593	97,695	116,444	97,407
Cash in transit (i)	210,398	214,262	210,398	214,262
Deferred income	45,295	46,342	45,295	46,342
Other liabilities(ii)	120,718	88,284	115,241	84,770
Total	**599,416**	**535,827**	**593,522**	**531,047**

i) Cash in transit includes payments which should be settled with other banks of RON 178,406 thousand (2017: RON 170,657 thousand) and receipts which should be settled with current accounts RON 31,983 thousand (2017: RON 43,447 thousand).

ii) Other liabilities include credit cards of RON 42,246 thousand (2017: RON 28,447 thousand), deposits representing the share capital at companies in course of set-up of RON 29,973 thousand (2017: RON 15,610 thousand) and receivable from guarantees received of RON 8,896 thousand (2017: RON 10,379 thousand).

37. PROVISIONS

In RON thousand	Group 31 December 2018	Group 31 December 2017	Bank 31 December 2018	Bank 31 December 2017
Provisions for litigations and potential risks	27,291	32,525	26,973	32,525
Provision for un-drawn commitments	69,405	25,542	69,405	25,542
Provision for employee benefits	3,621	4,118	3,621	4,118
Provisions for overdue vacations	10,934	9,875	10,707	9,666
Provisions for share incentive plan	-	1,586	-	1,586
Provisions for severance payments and similar obligations	5,313	4,177	5,102	4,000
Sundry provisions	17,117	2,641	15,500	600
Total	**133,681**	**80,464**	**131,308**	**78,037**

During 2018 the provisions can be further analyzed as follows:

Group

In RON thousand	Opening balance	Allocation	Release	IFRS 9 impact	Closing balance
Provisions for litigations and potential risks	32,525	-	(5,234)	-	27,291
Provision for un-drawn commitments	25,542	68,641	(40,454)	15,676	69,405
Provisions for employee benefits	4,118	-	(497)	-	3,621
Provisions for overdue vacations	9,875	1,268	(209)	-	10,934
Provisions for share incentive plan i	1,586	-	(1,586)	-	0
Provisions for severance payments and similar obligations	4,177	5,350	(4,214)	-	5,313
Sundry provisions	2,641	24,426	(9,950)	-	17,117
TOTAL	**80,464**	**99,685**	**(62,144)**	**15,676**	**133,681**

During 2017 the provisions can be further analyzed as follows:

In RON thousand	Opening balance	Allocation	Release	Usage	FX	Change in consolidation	Closing balance
Provisions for litigations and potential risks	31,943	6,697	-	(6,583)	468	-	32,525
Provision for un-drawn commitments	24,286	11,723	(10,438)	-	(29)	-	25,542
Provisions for employee benefits	4,487	-	(369)	-	-	-	4,118
Provisions for overdue vacations	8,746	979	(59)	-	-	209	9,875
Provisions for share incentive plan	2,513	312	(1,282)	-	43	-	1,586
Provisions for severance payments and similar obligations	42	3,958	-	-	-	177	4,177
Sundry provisions	5,118	3,545	(5,290)	(2,672)	-	1,940	2,641
TOTAL	**77,135**	**27,214**	**(17,438)**	**(9,255)**	**482**	**2,326**	**80,464**

37. PROVISIONS (continued)

Bank

During 2018 the provisions can be further analyzed as follows:

In RON thousand	Opening balance	Allocation	Release	IFRS 9 impact	Closing balance
Provisions for litigations and potential risks	32,525	-	(5,552)	-	26,973
Provision for un-drawn commitments	25,542	68,641	(40,454)	15,676	69,405
Provisions for employee benefits	4,118	-	(497)	-	3,621
Provisions for overdue vacations	9,666	1,041	-	-	10,707
Provisions for share incentive plan	1,586	-	(1,586)	-	0
Provisions for severance payments and similar obligations	4,000	5,102	(4,000)	-	5,102
Sundry provisions	600	15,500	(600)	-	15,500
TOTAL	**78,037**	**90,284**	**(52,689)**	**15,676**	**131,308**

During 2017 the provisions can be further analyzed as follows:

In RON thousand	Opening balance	Allocation	Release	Usage	FX	Closing balance
Provisions for litigations and potential risks	31,943	6,697	-	(6,583)	468	32,525
Provision for un-drawn commitments	24,286	11,723	(10,438)	-	(29)	25,542
Provisions for employee benefits	4,487	-	(369)	-	-	4,118
Provisions for overdue vacations	8,746	979	(59)	-	-	9,666
Provisions for share incentive plan	2,513	312	(1,282)	-	43	1,586
Provisions for severance payments and similar obligations	42	3,958	-	-	-	4,000
Sundry provisions	5,118	3,444	(5,290)	(2,672)	-	600
TOTAL	**77,135**	**27,113**	**(17,438)**	**(9,255)**	**482**	**78,037**

The provision for employee benefits is the Group's one off obligation to offer a number of salaries depending on the service period. The Group has calculated provision for contributions granted to employees on retirment as at year end 2017 using indicators such as: remaining number of years with the company up to retirement, probability that employee will stay with the company up to retirement, current salary, average number of salaries paid as benefit at retirement, age, sex, expected age of retirement as per current legislation.

37. PROVISIONS (continued)

The nature of provisions for litigation represents legal disputes. Expected timing of outflows for litigations cannot be appreciated, depending on various factors. Given the complexity and inherent uncertainties related to the outcome of possible scenario regarding the provision for litigation, the Group's estimates needed may differ from actual obligation resulting from the completion of such legal disputes in future periods.

As of December 31, 2018, the provisions related to consumer loans litigations amounted to 16,910 RON thousand (2017: RON 24,634 thousand). Those litigations are due to contractual clauses that may generate losses because they are considered unfair by customers. The existing provisions are both for ongoing litigations and for potential litigations which might result in litigation in the future and may generate losses as a result of potential unfavorable court decision.

In one of the Bank’s litigations concerning the exception of unconstitutionality regarding the provisions of art. 12-13 of Law no. 193/2000 on abusive clauses in contracts between professionals and consumers the Constitutional Court of Romania has ruled by Decision no. 602/2016., the Constitutional Court of Romania overruled the exception of unconstitutionality referred by Raiffeisen Bank, but on the on the one hand, the Constitutional Court of Romania overruled the exception of unconstitutionality referred by Raiffeisen Bank. Also has ruled that the legal provisions concerning the right of the national courts to order the removal of the abusive clauses from all the contracts concluded by professionals do not refer to the cancellation of an abusive clause with effects for the past, but only for the future, so that the payments already performed cannot be affected.

Therefore, taking into consideration the fact that since the Government Emergency Ordinance no. 50/2010 on consumer credit came into force, the credit institutions have adapted their contracts to the new legislative requirements, the Decision no. 602/2016 of the Constitutional Court of Romania will have a low impact, with greater importance in the realm of theory by explaining if the concept of retroactivity applies to the contracts in performance or not.

For off balance sheet commitments, provisions are calculated by multiplying net exposure (gross exposure minus collateral value) with historical loss rates specific for each risk category, further adjusted with a standard credit conversion factor (as defined under Basel) and with loss given default related to exposure not covered by collaterals.

Statistical assumptions used in provision computation in 2018 are consistent with those at year end 2017, revised as per current year available information.

38. SHARE CAPITAL AND TREASURY SHARES

Share capital

As of December 31, 2018 the number of shares is 12,000 and there were no changes in shares structure.

Share capital in amount of RON 1.2 bln consists in 12,000 shares with a nominal value of RON 100,000/share.

The dividends paid by Raiffeisen Bank S.A during 2018 were amounted to RON 252,000,000 previous year profit (dividend per share RON 21,000 /share).

The shareholders of the Group are as follows:

	31 December 2018	31 December 2017
	%	%
Raiffeisen SEE Region Holding GmbH	99.925	99.925
Other shareholders	0.075	0.075
Total	**100**	**100**

39. OTHER RESERVES

	Group		Bank	
In RON thousand	**31 December 2018**	**31 December 2017**	**31 December 2018**	**31 December 2017**
Statutory reserve *(i)*	242,128	242,128	240,000	240,000
Fair value loss taken to equity (net of tax), available for sale investments	-	(7,929)	-	(5,889)
Fair value loss taken to equity (net of tax), investments securities FVOCI	20,801	-	22,674	-
Total	**262,929**	**234,199**	**262,674**	**234,111**

Fair value reserve for financial assets FVOCI

	Group		Bank	
In RON thousand	**2018**	**2017**	**2018**	**2017**
At 1 January	**(7,929)**	**4,254**	**(5,889)**	**5,873**
Impact of adopting IFRS 9	3,630	-	3,630	-
Change in fair value reserve (for available for sale financial assets)	-	(12,183)	-	(11,762)
Change in fair value reserve (for financial assets FVOCI)	25,100	-	24,933	-
At 31 December	**20,801**	**(7,929)**	**22,674**	**(5,889)**

40. RELATED PARTY TRANSACTIONS

The Group entered into a number of banking transactions with Raiffeisen Bank International AG, the ultimate controlling party, and its subsidiaries in the normal course of business. These transactions were carried out on commercial terms and conditions and at market rate.
The transactions and balances with related parties are presented in tables below:

Group

	2018					
In RON thousand	**Parent**	**Associates**	**Joint ventures**	**Key Personnel**	**Other interest**	**Total**
Trading assets	8,072	-	-	-	-	8,072
Derivative assets held for risk management	8,621	-	-	-	-	8,621
Loans and advances to banks at amortised cost	14,210	-	-	-	156	14,366
Loans and advances to customers at amortised cost	-	-	-	7,139	195,458	202,597
Investment in subsidiaries, associates and joint ventures	-	-	-	-	7,180	7,180
Other assets	153	-	263	-	1,366	1,782
Outstanding receivables	**31,056**	**-**	**263**	**7,139**	**204,160**	**242,618**
Derivative liabilities held for risk management	6,939	-	-	-	-	6,939
Trading liabilities	8,911	-	-	-	-	8,911
Deposits from banks	83,270	-	794	-	11,115	95,179
Deposits from customers	-	13,091	-	13,006	102,441	128,538
Debt securities issued	-	-	-	-	4,568	4,568
Subordinated liabilities	855,678	-	-	-	-	855,678
Other liabilities	-	-	-	-	-	-
Outstanding payables	**954,798**	**13,091**	**794**	**13,006**	**118,124**	**1,099,813**
Commitments given	-	-	12,000	-	14,294	26,294
Guarantees issued	88,774	-	-	-	48,139	136,913
Commitments received	233,195	-	-	-	-	233,195
Guarantees received	152,564	-	-	-	54,687	207,251
Notional amount of derivative instruments	4,824,045	-	-	-	-	4,824,045

40. RELATED PARTY TRANSACTIONS (continued)

In RON thousand	2017					
	Parent	**Associates**	**Joint ventures**	**Key Personnel**	**Other interest**	**Total**
Trading assets	7,127	-	-	-	-	7,127
Derivative assets held for risk management	9,391	-	-	-	-	9,391
Deposits to banks	48,757	-	-	-	292	49,049
Loans and advances to customers	-	-	-	7,244	155,893	163,137
Investment securities	-	-	-	-	2,233	2,233
Other assets	27,309	-	92	3	4,516	31,920
Outstanding receivables	**92,584**	**-**	**92**	**7,247**	**162,934**	**262,857**
Derivative liabilities held for risk management	1,203	-	-	-	-	1,203
Trading liabilities	23,417	-	-	-	-	23,417
Deposits from banks	115,356	-	7	-	17,143	132,506
Deposits from customers	-	-	1,500	12,747	262,043	276,290
Debt securities issued	-	-	-	-	4,570	4,570
Subordinated liabilities	849,020	-	-	-	-	849,020
Other liabilities	74,295	-	-	-	5,353	79,648
Outstanding payables	**1,063,291**	**-**	**1,507**	**12,747**	**289,109**	**1,366,654**
Commitments given	87,841	-	12,000	69	175,841	275,751
Guarantees issued	53,638	-	-	-	25,270	78,908
Commitments received	698,955	-	-	-	-	698,955
Guarantees received	112,895	-	-	-	32,135	145,030
Notional amount of derivative instruments	18,662,212	-	-	-	-	18,662,212

40. RELATED PARTY TRANSACTIONS (continued)

Bank

	2018						
In RON thousand	**Parent**	**Subsidiaries**	**Associates**	**Joint ventures**	**Key Personnel**	**Other interest**	**Total**
Trading assets	8,072	-	-	-	-	-	8,072
Derivative assets held for risk management	8,621	-	-	-	-	-	8,621
Loans and advances to banks at amortised cost	14,210	-	-	-	-	156	14,366
Loans and advances to customers at amortised cost	-	171,426	-	-	7,139	195,457	374,022
Investment in subsidiaries, associates and joint ventures	-	91,884	6,069	7,396	-	7,180	112,529
Other assets	153	7,701	-	263	-	1,367	9,484
Outstanding receivables	**31,056**	**271,011**	**6,069**	**7,659**	**7,139**	**204,160**	**527,094**
Derivative liabilities held for risk management	6,939	-	-	-	-	-	6,939
Trading liabilities	8,911	-	-	-	-	-	8,911
Deposits from banks	83,270	-	-	794	-	11,115	95,179
Deposits from customers	-	54,723	13,091	-	13,006	102,441	183,261
Debt securities issued	-	3,720	-	-	-	4,568	8,288
Subordinated liabilities	855,678	-	-	-	-	-	855,678
Other liabilities	-	-	-	-	-	-	-
Outstanding payables	**954,798**	**58,443**	**13,091**	**794**	**13,006**	**118,124**	**1,158,256**
Commitments given	-	-	-	12,000	-	14,294	26,294
Guarantees issued	88,774	-	-	-	-	48,139	136,913
Commitments received	233,195	-	-	-	-	-	233,195
Guarantees received	152,564	-	-	-	-	54,687	207,251
Notional amount of derivative instruments	4,824,045	3,381	-	-	-	-	4,827,426

40. RELATED PARTY TRANSACTIONS (continued)

	2017						
In RON thousand	**Parent**	**Subsidiaries**	**Associates**	**Joint ventures**	**Key Personnel**	**Other interest**	**Total**
Trading assets	7,127	478	-	-	-	-	7,605
Derivative assets held for risk management	9,391	-	-	-	-	-	9,391
Deposits to banks	48,757	-	-	-	-	292	49,049
Loans and advances to customers	-	133,781	-	-	7,244	155,893	296,918
Investment in subsidiaries, associates and joint ventures	-	91,914	6,069	7,396	-	2,233	107,612
Other assets	27,309	9,366	-	92	3	4,516	41,286
Outstanding receivables	**92,584**	**235,539**	**6,069**	**7,488**	**7,247**	**162,934**	**511,861**
Derivative liabilities held for risk management	1,203	-	-	-	-	-	1,203
Trading liabilities	23,417	-	-	-	-	-	23,417
Deposits from banks	115,356	-	-	7	-	17,143	132,506
Deposits from customers	-	49,701	-	1,500	12,747	262,043	325,991
Debt securities issued	-	3,722	-	-	-	4,570	8,292
Subordinated liabilities	849,020	-	-	-	-	-	849,020
Other liabilities	74,295	-	-	-	-	5,353	79,648
Outstanding payables	**1,063,291**	**53,423**	**-**	**1,507**	**12,747**	**289,109**	**1,420,077**
Commitments given	87,841	15,000	-	12,000	69	175,841	290,751
Guarantees issued	53,638	2,779	-	-	-	25,270	81,687
Commitments received	698,955	-	-	-	-	-	698,955
Guarantees received	112,895	-	-	-	-	32,135	145,030
Notional amount of derivative instruments	18,662,212	43,571	-	-	-	-	18,705,783

40. RELATED PARTY TRANSACTIONS (continued)

Group

	2018					
In RON thousand	**Parent**	**Associates**	**Joint ventures**	**Key Personnel**	**Other interest**	**Total**
Interest income	2,512	-	2	183	4,526	7,223
Interest expenses	(55,672)	-	(8)	-	(950)	(56,630)
Fees and commissions income	701	-	101	1	30	833
Fees and commissions expenses	(3,091)	-	-	-	(9,591)	(12,682)
Net trading income	34,331	-	-	-	-	34,331
Operating expenses	(43,801)	-	-	-	(36,203)	(80,004)
Personnel expenses	-	-	-	(33,754)	-	(33,754)
Other operating income	-	-	-	-	26	26

	2017					
In RON thousand	**Parent**	**Associates**	**Joint ventures**	**Key Personnel**	**Other interest**	**Total**
Interest income	124	-	-	193	4,021	4,338
Interest expenses	(49,613)	-	-	(24)	(1,175)	(50,812)
Fees and commissions income	1,950	-	185	4	996	3,135
Fees and commissions expenses	(7,099)	-	-	-	(14,020)	(21,119)
Net trading income	(17,069)	-	-	-	-	(17,069)
Operating expenses	(31,838)	-	-	-	(44,527)	(76,365)
Personnel expenses	-	-	-	(32,358)	-	(32,358)
Other operating income	233	-	1,182	-	1,953	3,368

Operating expenses include mostly IT costs, legal, advisory and consulting expenses and office space expenses such as rental, maintenance and others.

40. RELATED PARTY TRANSACTIONS (continued)

Bank

	2018						
In RON thousand	Parent	Subsidiaries	Associates	Joint ventures	Key Personnel	Other interest	Total
Interest income	2,512	3,583	-	2	183	4,526	10,806
Interest expenses	(55,672)	-	-	(8)	-	(950)	(56,630)
Fees and commissions income	701	34,747	-	101	1	30	35,580
Fees and commissions expenses	(3,091)	-	-	-	-	(9,591)	(12,682)
Net trading income	34,331	-	-	-	-	-	34,331
Operating expenses	(43,801)	-	-	-	-	(36,203)	(80,004)
Personnel expenses	-	-	-	-	(33,754)	-	(33,754)
Dividend income	-	6,389	-	-	-	-	6,389
Other operating income	-	1,194	-	-	-	26	1,220

	2017						
In RON thousand	Parent	Subsidiaries	Associates	Joint ventures	Key Personnel	Other interest	Total
Interest income	124	2,132	-	-	193	4,021	6,470
Interest expenses	(49,613)	(193)	-	-	(24)	(1,175)	(51,005)
Fees and commissions income	1,950	37,386	-	185	4	996	40,521
Fees and commissions expenses	(7,099)	-	-	-	-	(14,020)	(21,119)
Net trading income	(17,069)	560	-	-	-	-	(16,509)
Operating expenses	(31,838)	-	-	-	-	(44,527)	(76,365)
Personnel expenses	-	-	-	-	(32,358)	-	(32,358)
Dividend income	-	4,938	-	-	-	-	4,938
Other operating income	233	7,116	-	1,182	-	1,953	10,484

40. RELATED PARTY TRANSACTIONS (continued)

Transactions with key management personnel

Key management personnel is comprised of the members of the Supervisory Board, Management Board and other senior management as defined by the National Bank of Romania Regulation no.5/20.12.2013 related to the prudential requirements for credit institutions and amended by the Regulation no.5/17.12.2014.

The transactions between the Group and key management personnel are in the normal course of business, representing: loans granted, deposits placed, foreign currency transactions and guarantees issued.

The volumes of key management personnel transactions as at year-end and expense and income for the year are presented in the below tables.

In RON thousand	**Group**		**Bank**	
	2018	**2017**	**2018**	**2017**
Loans and advances to customers	7,139	7,244	7,139	7,244
Interest income and fees and commission income	184	197	184	197
Deposits	13,006	12,747	13,006	12,747
Interest expense	-	(24)	-	(24)

The following table shows total remuneration of the members of the Key management personnel according to IAS 24.17. The expenses according to IAS 24 were recognized on an accrual basis and according to the rules of the underlying standards, respectively IAS 19 and IFRS 2:

Key management personnel compensation

	Group		**Bank**	
In RON thousand	**2018**	**2017**	**2018**	**2017**
Short-term employee benefits	29,856	29,053	29,856	29,053
Other long term benefits	4,145	2,742	4,145	2,742
Share-based payment	(247)	563	(247)	563
Total compensation	**33,754**	**32,358**	**33,754**	**32,358**

Short-term employee benefits shown in the above table contain salaries and benefits in kind and other benefits and those parts of the bonuses which become due for the short term. Furthermore, changes possibly arising from the difference between the bonus provision and the later awarded bonus are also contained.

Other long-term benefits contains bonus payments regarding deferred bonus portions in cash and retained portion payable in instruments. For the latter, valuation changes due to currency fluctuations are taken into account.

41. COMMITMENTS AND CONTINGENCIES

i) Credit related commitments

Guarantees and letters of credit

The Group issues guarantees and letters of credit for its customers. Guarantees and letters of credit represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties. The primary purpose of letters of credit is to ensure that funds are available to a customer as required.

Credit related commitments

Loan commitments represent unused amounts of approved credit facilities.

Off-balance sheet contractual amounts of loan commitments, guarantees and letters of credit issued are presented in the following table:

	Group		**Bank**	
	31 December 2018	**31 December 2017**	**31 December 2018**	**31 December 2017**
In RON thousand				
Loan commitments	9,701,101	8,747,935	9,646,547	8,707,230
Guarantees issued	2,147,781	1,872,210	2,147,781	1,872,210
Letters of credit	602,544	522,177	602,544	522,177
Total	**12,451,426**	**11,142,322**	**12,396,872**	**11,101,617**

The tables below present for 31 December 2018, the split of credit related commitments on stages and credit quality:

Group
Non-retail financial guarantees given

In RON thousand	**31 December 2018**			
Internal rating grade	**Stage 1 Collective**	**Stage 2 Collective**	**Stage 3 Individual**	**Total**
Excellent	-	-	-	-
Strong	755,761	21,972	-	777,733
Good	859,858	2,920	-	862,778
Satisfactory	937,509	30,504	-	968,013
Substandard	4,003	4,002	-	8,005
Impaired	-	-	111,683	111,683
Unrated	-	-	-	-
Total	**2,557,131**	**59,398**	**111,683**	**2,728,212**

Group
Non-retail loan commitments given

In RON thousand	**31 December 2018**			
Internal rating grade	**Stage 1 Collective**	**Stage 2 Collective**	**Stage 3 Individual**	**Total**
Excellent	303,886	-	-	303,886
Strong	2,363,406	-	-	2,363,406
Good	2,191,446	49,107	-	2,240,553
Satisfactory	1,825,386	75,953	-	1,901,339
Substandard	13,445	10,644	-	24,089
Impaired	-	-	35,907	35,907
Unrated	74,085	518	-	74,603
Total	**6,771,654**	**136,222**	**35,907**	**6,943,783**

41. COMMITMENTS AND CONTINGENCIES

Bank
Non-retail financial guarantees given

In RON thousand	31 December 2018			
Internal rating grade	**Stage 1 Collective**	**Stage 2 Collective**	**Stage 3 Individual**	**Total**
Excellent	-	-	-	-
Strong	755,761	21,972	-	777,733
Good	859,858	2,920	-	862,778
Satisfactory	937,509	30,504	-	968,013
Substandard	4,003	4,002	-	8,005
Impaired	-	-	111,683	111,683
Unrated	-	-	-	-
Total	**2,557,131**	**59,398**	111,683	**2,728,212**

Bank
Non-retail loan commitments given

In RON thousand	31 December 2018			
Internal rating grade	**Stage 1 Collective**	**Stage 2 Collective**	**Stage 3 Individual**	**Total**
Excellent	303,886	-	-	303,886
Strong	2,363,406	-	-	2,363,406
Good	2,184,698	48,971	-	2,233,669
Satisfactory	1,797,874	75,953	-	1,873,827
Substandard	10,503	10,644	-	21,147
Impaired	-	-	35,907	35,907
Unrated	57,851	518	-	58,369
Total	**6,718,218**	**136,086**	**35,907**	**6,890,211**

Group
Retail financial guarantees given

In RON thousand	31 December 2018			
Internal rating grade	**Stage 1 Collective**	**Stage 2 Collective**	**Stage 3 Individual**	**Total**
Excellent	-	-	-	-
Strong	-	10,999	-	10,999
Good	-	447	-	447
Satisfactory	-	-	-	-
Substandard	-	-	-	-
Impaired	-	-	-	-
Unrated	-	10,667	-	10,667
Total	**-**	**22,113**	**-**	**22,113**

Group
Retail loan commitments given

In RON thousand	31 December 2018			
Internal rating grade	**Stage 1 Collective**	**Stage 2 Collective**	**Stage 3 Individual**	**Total**
Excellent	887	-	-	887
Strong	950,504	271,553	-	1,222,057
Good	735,447	252,951	-	988,398
Satisfactory	133,213	35,043	-	168,256
Substandard	29,670	19,579	-	49,249
Impaired	-	-	2,443	2,443
Unrated	316,029	9,973	26	326,028
Total	**2,165,750**	**589,099**	**2,469**	**2,757,318**

41. COMMITMENTS AND CONTINGENCIES (continued)

Bank
Retail Financial guarantees given

In RON thousand	31 December 2018			
Internal rating grade	**Stage 1 Colectiv**	**Stage 2 Colectiv**	**Stage 3 Individual**	**Total**
Excellent	-	-	-	-
Strong	-	10,999	-	10,999
Good	-	447	-	447
Satisfactory	-	-	-	-
Substandard	-	-	-	-
Impaired	-	-	-	-
Unrated	-	10,667	-	10,667
Total	**-**	**22,113**	**-**	**22,113**

Bank
Retail Loan commitments given

In RON thousand	31 December 2018			
Internal rating grade	**Stage 1 Colectiv**	**Stage 2 Colectiv**	**Stage 3 Individual**	**Total**
Excellent	887	-	-	887
Strong	950,504	271,553	-	1,222,057
Good	735,447	252,951	-	988,398
Satisfactory	132,231	35,043	-	167,274
Substandard	29,670	19,579	-	49,249
Impaired	-	-	2,443	2,443
Unrated	316,029	9,973	26	326,028
Total	**2,164,768**	**589,099**	**2,469**	**2,756,336**

ii) Contingencies from operating lease

Contingencies from operating lease rentals, which represents future minimum payments under operating lease contracts, are as follows:

	Group		Bank	
In RON thousand	**31 December 2018**	**31 December 2017**	**31 December 2018**	**31 December 2017**
Less than 1 year	93,657	100,696	92,624	99,539
1 – 5 year	255,313	284,488	251,278	280,402
More than 5 years	98,157	123,615	93,866	118,268
Total	**447,127**	**508,799**	**437,768**	**498,209**

The table below presents future minimum payments under operating sub-lease contracts:

In RON thousand	**31 December 2018**	**31 December 2017**
Less than 1 year	1,008	1,016
1 – 5 year	4,036	4,060
More than 5 years	4,291	5,346
Total	**9,335**	**10,422**

41. COMMITMENTS AND CONTINGENCIES (continued)

iii) Other contingent liabilities

As of 20 October 2017, the Bank received from National Authority for Consumer Protection (further called „ANPC") an order which requires the cancellation of an alleged incorrect practice of noninforming the customers about the future interest evolution upon loan origination.

Except for the RON 50,000 fine, the order requires to bring the contracts to the situation before the illegal practice, including the issue of a new reimbursement plan, with the conditions applicable on signing date. This is in contradiction with the effects of an order aimed at stopping a practice which has effects in the future and is not an action in cancellation which would have been retrospective. At the date of these financial statements, the Order is definitively suspended and a litigation regarding its validity is ongoing.

On November 2017, the Bank was notified by the National Authority of Fiscal Administration (further called „ANAF") about a fiscal inspection on current income tax, the period under inspection being 1 January 2011 – 31 December 2016. The previous fiscal inspection was related to the period 1 January 2005 - 31 December 2009 and had as main objective the review of taxes and contributions due to the consolidated budget. During 2018 the inspection has been extended to withholding tax, the period audited being 2013-2016. As of the date of these financial statements, the inspection is not finalised. As a consequence, the Bank did not recognize any contingent liabilities as of 31 December 2018.

On December 2017, the Bank received an inspection from the Competition Council. The object of inspection was the banking leasing association. As of the date of these financial statements, the Bank did not receive the inspection report. However, in our opinion, the Bank's activity is not the main scope of the inspection.

On August 2018, ANPC started an inspection regarding loans originated by the Bank and subsequently sold to other entities. The inspection is not finalised at the date of these financial statements.

42. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled.

Group

	2018			2017		
In RON thousand	Within 12 months	After 12 months	Total	Within 12 months	After 12 months	Total
Cash and cash with Central Bank	7,197,230	-	7,197,230	8,471,977	-	8,471,977
Loans and advances to banks at amortised cost	437,854	-	437,854	89,168	-	89,168
Derivative assets held for risk management	8,620	-	8,620	35,237	-	35,237
Trading assets	299,045	-	299,045	86,298	-	86,298
Financial assets mandatorily at fair value through profit or loss	114,367	265,861	380,228	-	-	-
Investment securities	-	-	-	1,992,378	3,257,436	5,249,814
Investment securities at fair value through other comprehensive income	1,446,401	1,757,906	3,204,307	-	-	-
Equity instruments at fair value through other comprehensive income	-	48,023	48,023	-	-	-
Investment in subsidiaries, associates and joint ventures	-	24,980	24,980	-	23,911	23,911
Loans and advances to customers at amortised cost	9,992,963	16,151,397	26,144,360	7,388,855	14,772,419	22,161,274
Fair value changes of the hedged items-hedge accounting	-	1,124	1,124	-	-	-
Investment securities at amortised cost	460,724	1,872,643	2,333,367	-	-	-
Current tax receivable	-	-	-	541	-	541
Other assets	282,850	20,089	302,939	274,003	13,825	287,828
Deferred tax assets	-	28,071	28,071	-	17,167	17,167
Property, plant and equipment	-	203,274	203,274	-	221,082	221,082
Intangible assets	-	181,115	181,115	-	162,118	162,118
Total	**20,240,054**	**20,554,483**	**40,794,537**	**18,338,457**	**18,467,958**	**36,806,415**

In RON thousand						
Trading liabilities	18,322	-	18,322	29,291	-	29,291
Derivative liabilities held for risk management	7,478	-	7,478	50,844	-	50,844
Deposits from banks	536,070	-	536,070	500,439	7,850	508,289
Deposits from customers	32,839,571	211,632	33,051,203	29,449,598	246,401	29,695,999
Loans from banks and other financial institutions	379,011	430,887	809,898	410,517	521,441	931,958
Derivatives - hedge accounting	1,433	-	1,433	-	-	-
Current tax liabilities	84,677	-	84,677	21,582	-	21,582
Other liabilities	575,917	23,499	599,416	511,797	24,030	535,827
Debt securities issued	512,458	-	512,458	16,613	495,888	512,501
Subordinated liabilities	5,519	850,159	855,678	122,274	726,743	849,017
Provisions	106,709	26,972	133,681	44,742	35,722	80,464
Total	**35,067,165**	**1,543,149**	**36,610,314**	**31,157,697**	**2,058,075**	**33,215,772**

42. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

Bank

In RON thousand	2018 Within 12 months	2018 After 12 months	2018 Total	2017 Within 12 months	2017 After 12 months	2017 Total
Cash and cash with Central Bank	7,197,222	-	7,197,222	8,471,851	-	8,471,851
Loans and advances to banks at amortised cost	435,126	-	435,126	85,641	-	85,641
Derivative assets held for risk management	8,620	-	8,620	35,237	-	35,237
Trading assets	298,926	-	298,926	86,775	-	86,775
Financial assets mandatorily at fair value through profit or loss	102,647	265,861	368,508	-	-	-
Investment securities	-	-	-	1,958,763	3,251,731	5,210,494
Investment securities at fair value through other comprehensive income	1,446,401	1,757,906	3,204,307	-	-	-
Equity instruments at fair value through other comprehensive income	-	48,023	48,023	-	-	-
Investment in subsidiaries, associates and joint ventures	-	105,349	105,349	-	105,379	105,379
Loans and advances to customers at amortised cost	9,661,346	15,728,623	25,389,969	7,064,297	14,358,635	21,422,932
Fair value changes of the hedged items-hedge accounting	-	1,124	1,124	-	-	-
Investment securities at amortised cost	451,733	1,856,338	2,308,071	-	-	-
Current tax receivable	-	-	-	-	-	-
Other assets	258,454	20,089	278,543	256,041	13,825	269,866
Deferred tax assets	-	26,444	26,444	-	17,050	17,050
Property, plant and equipment	-	201,117	201,117	-	219,485	219,485
Intangible assets	-	178,461	178,461	-	159,997	159,997
Total	**19,860,475**	**20,189,335**	**40,049,810**	**17,958,605**	**18,126,102**	**36,084,707**
In RON thousand						
Trading liabilities	18,322	-	18,322	29,603	-	29,603
Derivative liabilities held for risk management	7,478	-	7,478	50,245	-	50,245
Deposits from banks	536,070	-	536,070	500,439	7,850	508,289
Deposits from customers	32,881,941	211,632	33,093,573	29,490,347	246,401	29,736,748
Loans from banks and other financial institutions	63,546	44,728	108,274	127,301	113,299	240,600
Derivatives - hedge accounting	1,433	-	1,433	-	-	-
Current tax liabilities	84,048	-	84,048	21,544	-	21,544
Other liabilities	570,023	23,499	593,522	507,017	24,030	531,047
Debt securities issued	516,179	-	516,179	16,734	499,489	516,223
Subordinated liabilities	5,519	850,159	855,678	122,274	726,743	849,017
Provisions	104,336	26,972	131,308	42,315	35,722	78,037
Total	**34,788,895**	**1,156,990**	**35,945,885**	**30,907,819**	**1,653,534**	**32,561,353**

43. CAPITAL

The capital management of the Group is defined through the capital strategy approved by the Management Board and is reviewed at least once every year.

The primary objective of the Group's capital management is to ensure an adequate level of capital which meets not only the regulatory requirements, but also the limits set in the capital strategy.

The Management Board of the Group actively manages the capital structure and seeks to maintain at all times a higher level of capital than the regulatory one in order to ensure a comfortable position in achieving the Group's business objectives.

No major changes have been made to the objectives and policies regarding capital management compared to the previous year.

Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No.648/2012 requires that the Group maintain a minimum Common Equity Tier 1 capital ratio of 4.5 %, a minimum Tier 1 capital ratio of 6 % and a minimum total capital ratio of 8 %.

According to supervisory review, Group was requested through an official notification to hold additional capital to cover risks which are not or not adequately taken into account under pillar I. The Group is also subject to Conservation and other systemically important institutions buffer. The Group is compliant with all of the above requirements.

	Group		**Bank**	
In RON thousand	**2018**	**2017**	**2018**	**2017**
Tier 1 Capital	3,472,661	2,868,693	3,410,236	2,807,777
Tier 2 Capital	485,091	523,761	485,552	510,458
Total capital	**3,957,752**	**3,392,454**	**3,895,788**	**3,318,235**
Risk weighted assets	**23,692,198**	**21,823,975**	**22,673,473**	**20,849,004**
Common Equity Tier 1 Capital ratio	14.66%	13.14%	15.04%	13.47%
Tier 1 Capital ratio	14.66%	13.14%	15.04%	13.47%
Total Capital ratio	16.70%	15.54%	17.18%	15.92%

Regulatory capital consists of Tier 1 and Tier 2 layers of capital. Tier 1 is made of share capital, premium reserves, retained earning (excluding current year profit) and deductions according to legislation in force. Tier 2 capital includes subordinated long term debt and deductions according to legislation in force.

44. SEGMENTS CONSOLIDATION

Key decisions are made by chief operating decision makers determining the resources allocated to each segment based on its financial strength and profitability.

The Group follows financial performance and steers the business by segments and products, namely customer business consists of Corporate, Retail, Financial Institutions and Own employees. Corporate comprises legal entities with an annual turnover exceeding EUR 5 million. Retail contains individual clients and legal entities with an annual turnover below the EUR 5 million threshold (small and medium entities), while Financial Institutions (part of Treasury Division) deals with brokers, banks, insurance companies, leasing firms, investment and pension funds, as well as asset management companies.

44. SEGMENTS CONSOLIDATION (continued)

The Group offers a wide array of banking services to its customers, adapted to the ever changing needs of our clients, but with maintained focus on the basics of banking.

Customer business lines bring in more than 85% of the Group's operating income, with following specifics worth mentioning: corporate clients chiefly draw their revenue streams from lending business, followed by fees from cash management, account services, foreign currency deals and investment banking activity.

Small clients also share these characteristics, while their unique business traits are visible through more intense payment and account activity, thus generating visibly greater proportion of the revenues as fees.

Private individual customers provide a highly diversified revenue source for the Group, mainly from unsecured loans, credit card and overdraft facilities, but also from mortgage loans, saving products and transactional business, FX deals and asset management services, as well as from the activity of intermediating transactions on the stock exchange; the Group continues to focus its attention on promoting alternative channels usage and thus provide improved services with advantages for both sides. Revenues are also brought in from loans and deposits granted to own employees, reported below as part of segment “Others”.

Proprietary business consists of Treasury Division (less Financial Institutions) and "Others" segment (less Own employees). The first mainly provides income streams from treasury activities, namely trading revenues, net income from financial assets held at fair value through profit or loss, as well as from interest contribution. The latter shows revenues mainly obtained as a result of transfers among segments, capital benefit, income generated by participations.

Regarding the segmentation by geographical area, the Group is performing its activity mainly under geographical area of Romania.

44. SEGMENTS CONSOLIDATION (continued)

Group	2018					
In RON thousand	Corporate Customers	Private Individuals	SME	Treasury Division	Others	Total unit
Total Assets before impairment allowance on loans and advances to customers at amortised cost	9,770,125	13,685,563	2,531,901	12,640,620	3,170,036	41,798,245
Impairment allowance on loans and advances to customers at amortised cost	(264,735)	(591,838)	(127,385)	(1,156)	(18,594)	(1,003,708)
Total Assets	**9,505,390**	**13,093,725**	**2,404,516**	**12,639,464**	**3,151,442**	**40,794,537**
Total Liabilities	**7,825,650**	**18,835,666**	**5,299,381**	**3,587,444**	**1,062,174**	**36,610,315**
Equity	**-**	**-**	**-**	**-**	**4,184,225**	**4,184,225**
Net interest income	284,251	841,468	210,248	102,551	94,744	1,533,262
Net commission income	126,965	310,155	187,074	14,780	157	639,131
Net trading income	50,493	140,354	60,513	105,958	725	358,043
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	2,958	36,058	(1,960)	331	1,424	38,811
Net gains/(losses) on derecognition of financial assets measured at fair value through other comprehensive income	-	-	-	480	-	480
Gains or (-) losses from hedge accounting, net	-	-	-	145	-	145
Other net operating income	-	4,664	-	-	21,865	26,529
Total Operating income	**464,667**	**1,332,699**	**455,875**	**224,245**	**118,915**	**2,596,401**
Operating expenses	(109,650)	(432,979)	(147,301)	(20,461)	(43,725)	(754,116)
Personnel expenses	(84,482)	(359,948)	(134,134)	(14,058)	(7,241)	(599,863)
Net provisioning for impairment allowance on financial assets	(40,969)	(94,016)	(46,538)	(1,029)	6,428	(176,124)
Negative goodwill	-	-	-	-	-	-
Share of gain from associates and joint ventures	-	-	-	-	1,027	1,027
Profit before tax	**229,566**	**445,756**	**127,902**	**188,697**	**75,404**	**1,067,325**
Income taxes	-	-	-	-	(173,536)	(173,536)
Profit after tax	**229,566**	**445,756**	**127,902**	**188,697**	**(98,132)**	**893,789**

44.SEGMENTS CONSOLIDATION (continued)

Group

	2017					
In RON thousand	**Corporate Customers**	**Private Individuals**	**SME**	**Treasury Division**	**Others**	**Total unit**
Total Assets before impairment losses on loans and advances	7,986,177	12,518,169	2,237,849	11,839,557	3,296,000	37,877,752
Impairment losses on loans and advances	(247,019)	(709,262)	(97,354)	(27)	(17,675)	(1,071,337)
Total Assets	**7,739,158**	**11,808,907**	**2,140,495**	**11,839,530**	**3,278,325**	**36,806,415**
Total Liabilities	**6,911,572**	**16,870,211**	**4,857,492**	**3,643,690**	**932,807**	**33,215,772**
Equity	**-**	**-**	**-**	**-**	**3,590,643**	**3,590,643**
Net interest income	214,933	732,355	163,393	49,834	17,533	1,178,048
Net commission income	128,175	272,265	174,125	11,402	350	586,317
Net Trading income	45,519	119,018	57,171	88,591	969	311,268
Net income from financial investments	(409)	-	-	6,128	202	5,921
Other net operating income	(5)	(1)	-	(1)	44,953	44,946
Total Operating income	**388,213**	**1,123,637**	**394,689**	**155,954**	**64,007**	**2,126,500**
Operating expenses	(111,929)	(405,164)	(140,178)	(17,711)	(52,762)	(727,744)
Personnel expenses	(77,619)	(335,991)	(121,167)	(13,649)	(7,380)	(555,806)
Net provisioning for impairment losses	(65,397)	(163,979)	(4,015)	(22)	(12,210)	(245,623)
Negative goodwill	-	-	-	-	5,245	5,245
Share of loss of associates	-	(1,692)	-	-	3,177	1,485
Profit before tax	**133,268**	**216,811**	**129,329**	**124,572**	**77**	**604,057**
Income taxes	-	-	-	-	(95,138)	(95,138)
Profit after tax	**133,268**	**216,811**	**129,329**	**124,572**	**(95,061)**	**508,919**

44. SEGMENTS CONSOLIDATION (continued)

Bank

In RON thousand	2018 Corporate Customers	Private Individuals	SME	Treasury Division	Others	Total unit
Total Assets before impairment allowance on loans and advances to customers at amortised cost	9,485,189	13,665,057	2,148,575	12,561,976	3,161,515	41,022,312
Impairment allowance on loans and advances to customers at amortised cost	(246,503)	(591,719)	(112,469)	(1,156)	(20,655)	(972,502)
Total Assets	**9,238,686**	**13,073,338**	**2,036,106**	**12,560,820**	**3,140,860**	**40,049,810**
Total Liabilities	**7,821,353**	**18,835,450**	**5,294,490**	**2,932,217**	**1,062,375**	**35,945,885**
Equity	**-**	**-**	**-**	**-**	**4,103,925**	**4,103,925**
Net interest income	269,214	840,223	185,770	111,632	93,134	1,499,973
Net commission income	124,484	295,676	180,908	15,266	157	616,491
Net trading income	50,493	140,354	60,513	105,905	723	357,988
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	2,958	36,058	(1,960)	-	1,425	38,481
Net gains/(losses) on derecognition of financial assets measured at fair value through other comprehensive income	-	-	-	480	-	480
Gains or (-) losses from hedge accounting, net	-	-	-	145	-	145
Other net operating income	-	4,664	-	-	27,209	31,873
Total Operating income	**447,149**	**1,316,975**	**425,231**	**233,428**	**122,648**	**2,545,431**
Operating expenses	(107,620)	(428,946)	(142,034)	(20,461)	(43,593)	(742,654)
Personnel expenses	(80,079)	(353,077)	(122,717)	(14,058)	(7,241)	(577,172)
Net provisioning for impairment allowance on financial assets	(65,126)	(91,120)	(23,698)	(1,029)	6,427	(174,546)
Profit before tax	**194,324**	**443,832**	**136,782**	**197,880**	**78,241**	**1,051,059**
Income taxes	-	-	-	-	(169,972)	(169,972)
Profit after tax	**194,324**	**443,832**	**136,782**	**197,880**	**(91,731)**	**881,087**

44. SEGMENTS CONSOLIDATION (continued)

Bank

	2017					
In RON thousand	**Corporate Customers**	**Private Individuals**	**SME**	**Treasury Division**	**Others**	**Total unit**
Total Assets before impairment losses on loans and advances	7,694,153	12,492,268	1,889,193	11,759,079	3,291,995	37,126,688
Impairment losses on loans and advances	(233,788)	(709,226)	(85,047)	(27)	(13,893)	(1,041,981)
Total Assets	**7,460,365**	**11,783,042**	**1,804,146**	**11,759,052**	**3,278,102**	**36,084,707**
Total Liabilities	**6,907,636**	**16,870,133**	**4,853,295**	**2,996,846**	**933,443**	**32,561,353**
Equity	**-**	-	**-**	**-**	**3,523,354**	**3,523,354**
Net interest income	206,670	730,906	149,077	50,141	15,139	1,151,933
Net commission income	126,479	260,006	169,195	12,261	349	568,290
Net Trading income	45,519	119,018	57,171	88,105	968	310,781
Net income from financial investments	-	-	-	6,128	-	6,128
Other net operating income	-	-	-	-	48,563	48,563
Total Operating income	**378,668**	**1,109,930**	**375,443**	**156,635**	**65,019**	**2,085,695**
Operating expenses	(110,298)	(401,892)	(136,961)	(17,507)	(52,636)	(719,294)
Personnel expenses	(74,589)	(330,171)	(112,912)	(13,649)	(7,043)	(538,364)
Net provisioning for impairment losses	(59,697)	(164,187)	(8,161)	(22)	(12,210)	(244,277)
Profit before tax	**134,084**	**213,680**	**117,409**	**125,457**	**(6,870)**	**583,760**
Income taxes	-	-	-	-	(92,583)	(92,583)
Profit after tax	**134,084**	**213,680**	**117,409**	**125,457**	**(99,453)**	**491,177**