Banca Transilvania S.A.

CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

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

For the year ended 31 December 2017

Banca Transilvania S.A.

CONTENTS

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

For the year ended 31 December

		Group		Bank	
	Notes	2017	2016	2017	2016
		RON thousand	*RON thousand*	*RON thousand*	*RON thousand*
Interest income		2,102,621	2,027,566	2,018,571	1,971,229
Interest expenses		(211,802)	(263,533)	(210,122)	(260,495)
Net interest income	8	**1,890,819**	**1,764,033**	**1,808,449**	**1,710,734**
Fee and commission income		744,313	652,900	704,571	624,114
Fee and commission expense		(117,516)	(106,629)	(123,621)	(114,651)
Net fee and commission income	9	**626,797**	**546,271**	**580,950**	**509,463**
Net trading income	10	278,339	197,383	223,667	183,493
Net gain /(loss) from sale of available-for-sale financial assets	11	(3,206)	401,691	(4,102)	402,226
Contribution to the Bank Deposit Guarantee Fund and the Bank Resolution Fund	12	(49,696)	(72,792)	(49,696)	(72,792)
Other operating income	13	173,823	135,916	116,196	71,583
Operating income		**2,916,876**	**2,972,502**	**2,675,464**	**2,804,707**
Net impairment allowance on assets, provisions for other risks and loan commitments	14	(29,221)	(658,087)	1,353	(654,223)
Personnel expenses	15	(763,227)	(665,818)	(715,390)	(631,487)
Depreciation and amortization	25.26	(125,024)	(93,911)	(90,106)	(72,358)
Other operating expenses	16	(556,782)	(495,849)	(492,821)	(447,516)
Operating expenses		**(1,474,254)**	**(1,913,665)**	**(1,296,964)**	**(1,805,584)**
Profit before income tax		**1,442,622**	**1,058,837**	**1,378,500**	**999,123**
Income tax expense/revenue	17	(200,154)	218,176	(192,521)	229,317
Profit for the year		**1,242,468**	**1,277,013**	**1,185,979**	**1,228,440**
Profit of the Group attributable to:					
Equity holders of the Bank		1,239,452	1,272,422		
Non-controlling interests		3,016	4,591		
Profit for the year		**1,242,468**	**1,277,013**		
Basic earnings per share	45	**0.2870**	**0.2931**		
Diluted earnings per share	45	**0.2866**	**0.2925**		

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

For the year ended 31 December

		Group		Bank	
	Notes	2017	2016	2017	2016
		RON thousand	*RON thousand*	*RON thousand*	*RON thousand*
Profit for the year		**1,242,468**	**1,277,013**	**1,185,979**	**1,228,440**
Items that cannot be reclassified as profit or loss, net of tax		**1,989**	**2,052**	**1,830**	**1,749**
Increase from fixed asset revaluation		2,245	1,783	2,245	1,783
Other elements of comprehensive income		(256)	269	(415)	(34)
Items which are or may be reclassified as profit or loss					
Fair value reserve (available-for-sale financial instruments), out of which:		**3,025**	**(219,403)**	**49,269**	**(210,879)**
Net gain/(loss) from the sale of available-for-sale financial assets transferred to profit and loss account		3,206	(401,691)	4,102	(402,226)
Fair value changes of available-for-sale financial assets		(181)	182,288	45,167	191,347
Income tax on other elements of comprehensive income		**(803)**	**34,778**	**(8,176)**	**33,461**
Total comprehensive income for the period		**1,246,679**	**1,094,440**	**1,228,902**	**1,052,771**
Total comprehensive income attributable to:					
Equity holders of the Bank		1,243,663	1,089,849	-	-
Non-controlling interest		3,016	4,591	-	-
Total comprehensive income for the period		**1,246,679**	**1,094,440**	**1,228,902**	**1,052,771**

The financial statements were approved by the Board of Directors on 21 March 2018 and were signed on its behalf by:

Horia Ciorcilă
Chairman

George Călinescu
Deputy CEO

Consolidated and Separate Statement of Financial Position

As at 31 December		Group		Bank	
	Note	2017	2016	2017	2016
Assets		*RON thousand*	*RON thousand*	*RON thousand*	*RON thousand*
Cash and cash equivalents with the National Bank	18	6,637,725	5,293,660	6,637,692	5,293,635
Placements with banks	19	5,348,074	2,785,505	5,302,292	2,746,582
Financial assets at fair value through profit and loss	20	264,996	155,609	73,281	51,979
Derivatives	47	9,854	7,911	9,854	7,911
Loans and advances to customers	21	29,463,632	26,710,402	29,914,039	27,209,976
Financial leasing receivables	22	785,330	523,643	-	-
Financial assets, available-for-sale*, out of which:*	23	15,821,300	14,993,828	16,032,612	15,120,524
- *Securities sold under sale and repurchase agreements*		258,540	1,488,289	258,540	1,488,289
Investment securities, held-to-maturity	23	-	20,691	-	-
Equity investments	24	-	-	156,631	136,671
Property and equipment and investment property	25	633,668	558,734	407,649	370,305
Intangible assets	26	133,255	86,600	125,761	78,396
Goodwill	26	2,774	2,774	-	-
Current tax assets		146,858	119,103	148,594	125,055
Deferred tax assets	27	187,145	378,716	173,243	373,940
Other financial assets	28	234,317	194,151	211,913	170,153
Other non-financial assets	29	136,041	112,897	108,514	84,474
Total assets		**59,804,969**	**51,944,224**	**59,302,075**	**51,769,601**
Liabilities					
Deposits from banks	30	127,946	247,268	127,946	247,268
Deposits from customers	31	48,932,195	41,681,475	49,099,201	41,851,773
Loans from banks and other financial institutions	32	1,487,022	2,304,911	1,099,891	2,246,461
Subordinated liabilities	33	414,578	424,111	414,578	424,111
Provisions for other risks and for loan commitments	34	382,849	514,582	373,117	506,955
Held for trading financial liabilities	47	11,906	10,947	11,906	10,947
Other financial liabilities	35	1,184,210	459,028	1,142,938	430,211
Other non-financial liabilities	36	104,028	111,869	62,425	67,787
Total liabilities excluding financial liabilities to holders of fund units		**52,644,734**	**45,754,191**	**52,332,002**	**45,785,513**
Financial liabilities to holders of fund units		**20,123**	**37,326**	**-**	**-**
Total liabilities		**52,664,857**	**45,791,517**	**52,332,002**	**45,785,513**
Equity					
Share capital	37	4,427,940	3,732,549	4,427,940	3,732,549
Treasury shares	38	(47,427)	(29,993)	(32,140)	(16,546)
Share premiums		28,381	28,374	28,381	28,374
Retained earnings	39	2,202,764	1,954,073	1,981,886	1,779,244
Revaluation reserves from tangible and intangible assets	40	17,524	26,227	20,416	27,188
Reserves for available-for-sale assets	41	(6,247)	(8,791)	52,176	10,790
Other reserves	42	502,487	432,061	491,414	422,489
Total equity attributable to equity holders of the Bank		**7,125,422**	**6,134,500**	**6,970,073**	**5,984,088**
Non-controlling interest		14,690	18,207	-	-
Total equity		**7,140,112**	**6,152,707**	**6,970,073**	**5,984,088**
Total liabilities and equity		**59,804,969**	**51,944,224**	**59,302,075**	**51,769,601**

The financial statements were approved by the Board of Directors on 21 March 2018 and were signed on its behalf by:

Horia Ciorcilă	George Călinescu
Chairman	*Deputy CEO*

The explanatory notes to the financial statements from page 10 to page 157 are an integral part of these financial statements.

Banca Transilvania S.A.

Consolidated Statement of Changes in Equity

For the year ended 31 December

Group

In RON thousand	Note	Share Capital	Treasury shares	Share premium	Revaluation reserves	Reserves from available-for-sale financial assets	Other reserves	Retained earnings	Total Attributable to the Bank's shareholders	Non-controlling interest	Total
		Attributable to the equity holders of the Bank									
Balance as at 1 January 2017		**3,732,549**	**(29,993)**	**28,374**	**26,227**	**(8,791)**	**432,061**	**1,954,073**	**6,134,500**	**18,207**	**6,152,707**
Statement of comprehensive income for the period											
Profit for the year		-	-	-	-	-	-	1,239,452	1,239,452	3,016	**1,242,468**
Other comprehensive income, net of income tax											
Fair value gains from available-for-sale financial assets (net of deferred tax)	41	-	-	-	-	2,544	-	-	**2,544**	-	**2,544**
Revaluation of tangible and intangible assets of income tax	40	-	-	-	1,886	-	-	-	**1,886**	-	**1,886**
Retained earnings from revaluation reserves	40	-	-	-	(12,926)	-	-	12,926	-	-	-
Distribution to statutory reserves		-	-	-	-	-	70,426	(70,426)	-	-	-
Other elements of comprehensive income, net of tax	39	-	-	-	-	-	-	(219)	**(219)**	-	**(219)**
Total comprehensive income for the period		-	-	-	**(11,040)**	**2,544**	**70,426**	**1,181,733**	**1,243,663**	**3,016**	**1,246,679**
Contributions of/distributions to the shareholders											
Increase in share capital through the conversion of profit reserves	37, 39	695,388	-	-	-	-	-	(695,388)	-	-	-
Increase in share capital through the conversion of subordinated debt into shares	37	3	-	7	-	-	-	-	**10**	-	**10**
Acquisition of own shares	38	-	(65,234)	-	-	-	-	-	**(65,234)**	-	**(65,234)**
Payments of own shares	38	-	49,640	-	-	-	-	(49,640)	-	-	-
Recognition of employee benefits in the form of equity instruments		-	-	-	-	-	-	41,307	**41,307**	-	**41,307**
Bonus shares from investments in subsidiaries	38	-	(1,840)	-	-	-	-	-	**(1,840)**	-	**(1,840)**
Dividends distributed to shareholders		-	-	-	-	-	-	(219,000)	**(219,000)**	-	**(219,000)**
Other	39	-	-	-	2,337	-	-	(10,321)	**(7,984)**	(6,533)	**(14,517)**
Total contributions of/distributions to the shareholders		**695,391**	**(17,434)**	7	**2,337**	-	-	**(933,042)**	**(252,741)**	**(6,533)**	**(259,274)**
Balance at 31 December 2017		**4,427,940**	**(47,427)**	**28,381**	**17,524**	**(6,247)**	**502,487**	**2,202,764**	**7,125,422**	**14,690**	**7,140,112**

Banca Transilvania S.A.

Consolidated Statement of Changes in Equity *(continued)*

For the year ended 31 December

Group — **Attributable to the equity holders of the Bank**

In RON thousand	Note	Share Capital	Treasury shares	Share premium	Revaluation reserves	Reserves from available – for - sale financial assets	Other reserves	Retained earnings	Total Attributable to the bank's shareholders	Non-controlling interest	Total
Balance as at 1 January 2016		**3,112,505**	**(11,806)**	**28,316**	**26,470**	**175,511**	**380,588**	**2,523,109**	**6,234,693**	**6,120**	**6,240,813**
Total comprehensive income for the period											
Profit for the year		-	-	-	-	-	-	1,272,422	**1,272,422**	4,591	**1,277,013**
Other comprehensive income, net of income tax											
Fair value gains (losses) from available-for-sale financial assets (net of deferred tax)	41	-	-	-	-	(184,302)	-	-	**(184,302)**	-	**(184,302)**
Revaluation tangible and intangible assets, net of income tax	40	-	-	-	1,498	-	-	-	**1,498**	-	**1,498**
Retained earnings from revaluation reserves	40	-	-	-	(1,741)	-	-	1,741	-	-	-
Distribution to statutory reserves		-	-	-	-	-	51,473	(51,473)	-	-	-
Other elements of comprehensive income, net of tax	39	-	-	-	-	-	-	231	**231**	-	**231**
Total comprehensive income		-	-	-	**(243)**	**(184,302)**	**51,473**	**1,222,921**	**1,089,849**	**4,591**	**1,094,440**
Contributions of/distributions to the shareholders											
Increase in share capital through the conversion of profit reserves	37, 39	620,000	-	-	-	-	-	(620,000)	-	-	-
Increase in share capital through the conversion of subordinated debt into shares	37	44	-	58	-	-	-	-	**102**	-	**102**
Acquisition of own shares	38	-	(16,546)	-	-	-	-	-	**(16,546)**	-	**(16,546)**
Recognition of employee benefits in the form of equity instruments		-	-	-	-	-	-	30,000	**30,000**	-	**30,000**
Bonus shares from investments in subsidiaries	38	-	(1,641)	-	-	-	-	-	**(1,641)**	-	**(1,641)**
Dividends distributed to shareholders		-	-	-	-	-	-	(1,200,000)	**(1,200,000)**	-	**(1,200,000)**
Other	39	-	-	-	-	-	-	(1,957)	**(1,957)**	7,496	**5,539**
Total contributions of/distributions to the shareholders		**620,044**	**(18,187)**	**58**	-	-	-	**(1,791,957)**	**(1,190,042)**	**7,496**	**(1,182,546)**
Balance at 31 December 2016		**3,732,549**	**(29,993)**	**28,374**	**26,227**	**(8,791)**	**432,061**	**1,954,073**	**6,134,500**	**18,207**	**6,152,707**

The explanatory notes to the financial statements from page 10 to page 157 are an integral part of these financial statements.

Banca Transilvania S.A.

Separate Statement of Changes in Equity
For the year ended 31 December

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

The explanatory notes to the financial statements from page 10 to page 157 are an integral part of these financial statements.

Separate Statement of Changes in Equity *(continued)*

For the year ended 31 December

Bank		Attributable to the equity holders of the Bank							
In RON thousand	**Note**	**Share Capital**	**Treasury shares**	**Share premium**	**Revaluation reserves**	**Reserves from available-for-sale financial assets**	**Other reserves**	**Retained earnings**	**Total**
Balance as at 1 January 2016		**3,112,505**	**-**	**28,316**	**27,377**	**187,928**	**372,533**	**2,389,102**	**6,117,761**
Total comprehensive income for the period		-	-	-	-	-	-	-	**-**
Profit for the year		-	-	-	-	-	-	1,228,440	**1,228,440**
Other comprehensive income, net of income tax									
Fair value gains / (losses) from available-for-sale financial assets (net of deferred tax)	41	-	-	-	-	(177,138)	-	-	**(177,138)**
Revaluation of property and equipment, net of income tax	40	-	-	-	1,498	-	-	-	**1,498**
Retained earnings from revaluation reserves	40	-	-	-	(1,687)	-	-	1,687	**-**
Distribution to statutory reserves	42	-	-	-	-	-	49,956	(49,956)	
Other elements of comprehensive income, net of tax	39	-	-	-	-	-	-	(29)	**(29)**
Total comprehensive income for the period		**-**	**-**	**-**	**(189)**	**(177,138)**	**49,956**	**1,180,142**	**1,052,771**
Contributions of/distributions to the shareholders									
Increase in share capital through the conversion of profit reserves	37, 39	620,000	-	-	-	-	-	(620,000)	**-**
Increase in share capital through share premium incorporation	37	44	-	58	-	-	-	-	**102**
Recognition of employee benefits in the form of equity instruments	39	-	-	-	-	-	-	30,000	**30,000**
Acquisition of treasury shares	38	**-**	(16,546)	-	**-**	**-**	**-**	-	**(16,546)**
Dividends distributed to shareholders	39	**-**	-	-	**-**	**-**	**-**	(1,200,000)	**(1,200,000)**
Total contributions of/distributions to the shareholders		**620,044**	**(16,546)**	**58**	**-**	**-**	**-**	**(1,790,000)**	**(1,186,444)**
Balance at 31 December 2016		**3,732,549**	**(16,546)**	**28,374**	**27,188**	**10,790**	**422,489**	**1,779,244**	**5,984,088**

Consolidated and Separate Statement of Cash Flows
For the year ended 31 December

		Group		Bank	
In RON thousand	**Note**	**2017**	**2016**	**2017**	**2016**
Cash flow from operating activities					
Profit for the year		**1,242,468**	**1,277,013**	**1,185,979**	**1,228,440**
Adjustments for:					
Depreciation / amortization expense	25, 26	125,024	93,911	90,106	72,358
Impairment allowance and write-offs of financial assets, provisions for other risks and loan commitments	14	332,515	794,765	282,520	790,901
Adjustment of financial assets at fair value through profit and loss		(43,509)	(524)	(14,890)	(56)
Income tax expense/revenue	17	200,154	(218,176)	192,521	(229,317)
Interest income		(2,102,621)	(2,027,566)	(2,018,571)	(1,971,229)
Interest expenses		211,802	263,533	210,122	260,495
Other adjustments		216,082	139,317	143,769	65,237
Net profit adjusted with non-monetary elements		**181,915**	**322,273**	**71,556**	**216,829**
Changes in operating assets and liabilities					
Change in placements with banks		(115,632)	(129,935)	(104,143)	(121,586)
Change in loans and advances to customers		(3,164,909)	(2,858,628)	(3,062,906)	(3,319,939)
Change in net lease investments		(273,851)	(189,696)	-	-
Change in financial assets at fair value through profit or loss		(65,878)	(1,222)	(6,412)	(2,269)
Modification of derivative financial instruments		(1,943)	(746)	(1,943)	(746)
Change in other financial assets		166,747	(56,769)	172,993	(41,511)
Change in other assets		(7,196)	27,791	(8,850)	132
Change in deposits from customers		7,261,045	3,413,002	7,257,769	3,489,703
Change in deposits from banks		(119,304)	(141,180)	(119,303)	(141,181)
Modification of held-for-trading financial liabilities		959	5,321	959	5,321
Change in repurchase receivables		(1,225,839)	1,203,894	(1,225,839)	1,203,894
Change in other financial liabilities		506,182	133,279	493,727	112,603
Change in other liabilities		(4,819)	(252,133)	(19,334)	(11,986)
Income tax paid/received		(161,197)	1,711	(147,496)	8,714
Interest received		1,777,615	1,879,054	1,694,321	1,849,241
Interest paid		(185,915)	(257,049)	(186,722)	(257,249)
Net cash from operating activities		**4,567,980**	**3,098,967**	**4,808,377**	**2,989,970**
Cash flow used in investment activities					
Acquisitions of available-for-sale financial assets		(11,203,068)	(26,008,147)	(11,216,420)	(26,027,482)
Sells of available-for-sale financial assets		10,126,397	22,809,401	10,101,484	22,800,362
Net acquisitions of property and equipment		(220,644)	(154,328)	(120,124)	(79,813)
Net acquisitions intangible assets		(93,615)	(39,912)	(77,585)	(33,579)
Proceeds from disposal of property and equipment		16,677	4,523	5,084	1,066
Acquisition of equity investments		-	(7,688)	(19,960)	(51,785)
Acquisition of securities held-to-maturity		-	(7,504)	-	-
Dividends collected	13	3,857	7,892	41,878	11,640
Interest received		548,339	567,431	547,748	566,565
Net cash flow used in investment activities		**(822,057)**	**(2,828,332)**	**(737,895)**	**(2,813,026)**

The explanatory notes to the financial statements from page 10 to page 157 are an integral part of these financial statements.

Consolidated and Separate Statement of Cash Flows *(continued)*
For the year ended 31 December

		Group		Bank	
In RON thousand	**Note**	**2017**	**2016**	**2017**	**2016**
Cash flow used in the financing activity					
Gross proceeds from loans from banks and other financial institutions		555,798	236,625	193,003	231,684
Gross payments from loans from banks and other financial institutions		(167,161)	(270,853)	(132,364)	(178,901)
Dividend payments		(242,945)	(1,145,657)	(236,780)	(1,145,657)
Payments for own shares		(65,234)	(16,546)	(65,234)	(16,546)
Interest paid		(36,576)	(40,381)	(34,671)	(36,789)
Net cash flow used in financing activities		**43,882**	**(1,236,812)**	**(276,046)**	**(1,146,209)**

	Note	**Group**		**Bank**	
In RON thousand		**2017**	**2016**	**2017**	**2016**
The impact of exchange rate variations on cash and cash equivalents		12,002	28,909	11,997	28,950
Net increase/decrease in cash and cash equivalents		3,777,803	(995,086)	3,782,439	(998,215)
Cash and cash equivalents at the National Bank as at 1 January		7,641,059	8,607,236	7,627,754	8,597,019
Cash and cash equivalents as at 31 December	18	**11,430,864**	**7,641,059**	**11,422,190**	**7,627,754**

The explanatory notes to the financial statements from page 10 to page 157 are an integral part of these financial statements.

1. Reporting entity

Banca Transilvania S.A.

Banca Transilvania S.A. (the “Parent company”, “BT”) is a joint-stock company incorporated in Romania. The Bank started its activity as a banking institution in 1993 and is licensed by the National Bank of Romania to conduct banking activities. The Bank started its activity in 1994 and its main operations involve banking services for legal entities and individuals.
The Group Banca Transilvania (“Group”) includes the parent-company, Banca Transilvania S.A. (“Bank”) and its subsidiaries, based in Romania and in the Republic of Moldova. The consolidated and separate financial statements as at 31.12.2017 comprise Banca Transilvania S.A. (the “parent company” or “BT”) and its subsidiaries (hereinafter referred to as the “Group”).

The Group’s fields of activity are: banking through Banca Transilvania S.A. (the “Bank”), leasing and consumer loans mainly through BT Leasing Transilvania IFN S.A., BT Operational Leasing S.A., BT Direct IFN S.A., BT Microfinanţare IFN S.A. and BT Leasing MD S.R.L., asset management through BT Asset Management S.A.I S.A. Likewise, The Bank controls 2 investments funds that are also included in the consolidation.

The Bank carries out its banking activity through its head office located in Cluj-Napoca and 54 branches, 413 agencies, 19 bank units, 7 healthcare division units, 2 private banking agencies in Romania and Italy and 1 regional office located in Bucharest (31 December 2016: 54 branches, 447 agencies, 33 bank units, 7 healthcare division units, 2 private banking agencies in Romania and Italy and 1 regional office located in Bucharest).

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

The Group’s number of active employees as at 31 December 2017 was 7,513 (31 December 2016: 7,522 employees).

The Bank’s number of active employees as at 31 December 2017 was 7,007 (31 December 2016: 7,014 employees).

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

The ownership structure of the Bank is presented below:

	31 December 2017	**31 December 2016**
European Bank for Reconstruction and Development (“EBRD”)	8.60%	8.60%
Romanian individuals	19.75%	16.97%
Romanian companies	30.97%	29.32%
Foreign individuals	1.80%	1.82%
Foreign companies	38.88%	43.29%
Total	**100.00%**	**100.00%**

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

1. Reporting entity *(continued)*

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

Subsidiary	Field of activity	31 December 2017	31 December 2016
BT Capital Partners S.A.	Investments	99.59%	99.59%
BT Leasing Transilvania IFN S.A.	leasing	100.00%	100.00%
BT Investments S.R.L.	Investments	100.00%	100.00%
BT Direct IFN S.A.	consumer loans	100.00%	100.00%
BT Building S.R.L.	Investments	100.00%	100.00%
BT Asset Management SAI. S.A.	Asset management	80.00%	80.00%
BT Solution Agent de Asigurare S.R.L.	Insurance broker	99.95%	99.95%
BT Asiom Agent de Asigurare S.R.L.	Insurance broker	99.95%	99.95%
BT Safe Agent de Asigurare S.R.L.	Insurance broker	99.99%	99.99%
BT Intermedieri Agent de Asigurare S.R.L.	Insurance broker	99.99%	99.99%
BT Compania de Factoring S.R.L.	Factoring	-	100.00%
BT Operational Leasing S.A.	leasing	94.73%	94.73%
BT Leasing MD S.R.L.	leasing	100.00%	100.00%
BT Microfinantare IFN S.A.	consumer loans	100.00%	100.00%
BT Transilvania Imagistica S.A.	Other healthcare activities	96.64%	89.71%
Improvement Credit Collection SRL	Activity of the collection agents and credit reporting bureaus	100.00%	100.00%
Sinteza S.A.	Manufacture of other basic organic chemicals	50.15%	46.98%
Chimprod S.R.L.	Manufacture of basic pharmaceutical products	50.03%	46.87%

As at 31 December 2017, the Group controls but does not include in the consolidation the company S.C. Timesafe S.R.L., an entity providing "information technology services". The subsidiary was not included in the consolidation because of its immateriality in terms of total assets (31 December 2017: RON 558 thousand), shareholders' equity (31 December 2017: RON 80 thousand) and losses (31 December 2017: - RON 418 thousand) in the Group's total assets, shareholders' equity and profit.

BT Leasing Transilvania IFN S.A.

BT Leasing Transilvania IFN S.A. operates through its head office located in Cluj-Napoca, 1 agency and 20 working points (2016: 1 agency and 24 work units) throughout the country.
The company leases various types of vehicles, technical and other types of equipment.

The number of active employees at 31 December 2017 was 115 (2016: 106 employees).
The registered address of BT Leasing Transilvania IFN S.A. is: 74-76 Constantin Brâncuşi Street, 1st floor 1 Cluj-Napoca, România.

1. Reporting entity *(continued)*

BT Asset Management SAI S.A.

BT Asset Management SAI S.A. is an investment management company, member of Banca Transilvania Financial Group, authorized by the National Securities Commission (currently the Financial Supervisory Authority, also named „ASF") through the decision no. 903/29.03.2005, ASF Public Register No. PJR05SAIR/120016 dated 29.03.2005.
BT Asset Management SAI manages both open and closed investment funds. As at 31 December 2017, BT Asset Management SAI managed 11 investment funds, of which: 9 open funds and 2 closed funds, counting over 54,000 investors and assets under management of more than RON 4,062 billion.

BT Asset Management SAI S.A. offers a full range of investment products, from fixed income funds, mixed funds and index funds, to equity funds. Access to the capital market is provided to customers through investments in Romania, as well as in the EU countries (mainly Austria); placements can be made both in lei and in euro.
The number of active employees at 31 December 2017 was 27 (2016: 25 employees).
The company's registered address is in Cluj-Napoca, 22 Emil Racoviţă street, 1st floor, Cluj county.

BT Capital Partners S.A.

At the beginning of 2016, BT Securities – the brokerage company of Banca Transilvania Financial Group – became BT Capital Partners S.A., after taking over the investment banking activity of Capital Partners, the most important independent consulting Romanian company in the field of M&A and Corporate Finance, thus becoming an exclusive member of M&A International, one of the largest global alliances of independent companies in the field of mergers and acquisitions.

In its new formula, BT Capital Partners offers consulting services for fund raising on the capital market, consultancy on mergers and acquisitions, brokerage services, raising and structuring of complex financing schemes, market research and strategic advisory.
At December 31, 2017 the company had 57 active employees (2016: 65 employees). The company headquarters are located in Cluj-Napoca, 74-76 Constantin Brâncuşi Street, ground floor, Cluj county, Romania, and through 11 work units.

BT Direct IFN S.A.

BT Direct IFN SA undertakes retail financing, through consumer loans granted to individuals.
During 2017, BT Direct IFN S.A. signed loan agreements (linked consumer loans and personal needs loans) in total amount of RON 94 million, the balance of such loans as at the end of 2017 being of RON 162 million, notably 10% higher compared to 2016.

The number of active employees at 31 December 2017 was 44 (2016: 41 active employees).
The company operates head office is located in Cluj-Napoca, 74-76 Constantin Brâncuşi Street, Cluj-Napoca, România.

1. Reporting entity *(continued)*

BT Microfinanţare IFN S.A.
BT Microfinanţare IFN SA is a non-banking financial institution established in 2016. The company's activity object is represented by small business financing. The company's registered address is: Bucharest, 43 Bucureşti – Ploieşti Street.
The number of active employees at 31 December 2017 was 127 (2016: 71 active employees).
In 2017, BT Microfinanţare IFN S.A. financed around 3,500 micro-enterprises (loans for the support and development of current activities, procurement loans, loans for supplier payments, investment loans for existent and/or new work units, loans for the acquisition of machinery/equipment etc.), the balance of such loans at the end of 2017 being of RON 159.8 million (2016: RON 7.2 million).

2. Basis of preparation

a) Declaration of conformity

The separate and consolidated financial statements of the Group and the Bank have been prepared in accordance with the International Financial Reporting Standards ("IFRS") as endorsed by the European Union, effective as at the Group's and Bank's annual reporting date, 31 December 2017.
The separate and consolidated financial statements of the Group and the Bank as at 31 December 2017 cannot be amended after their approval by the Bank's Board of Directors.
As at 31 December 2017, the following entities applied the International Financial Reporting Standards ("IFRS") as a basis of preparation: Banca Transilvania S.A. (starting 1 January 2012), BT Asset Management SAI and BT Capital Partners S.A. (starting 1 January 2016). All the other entities in the Group apply the Statutory Reporting Standards according to the applicable regulations in force as at the reporting date.

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

The subsidiaries, except those mentioned above, maintain their accounting records in accordance with the accounting legislation applicable in Romania and the Republic of Moldova. All such accounts of the subsidiaries are defined hereafter as statutory accounts.
These accounts have been adjusted to reflect the differences between the statutory accounts and IFRS. Accordingly, adjustments have been made to the statutory accounts, where considered necessary, in order to align the consolidated financial statements with IFRS in all material aspects.
The major changes applied to the statutory financial statements of the subsidiaries in order to bring them in line with the International Financial Reporting Standards as endorsed by the European Union are:

- the grouping of several detailed items into broader captions;
- fair value and impairment adjustments of financial instruments required in accordance with IAS 39 ("Financial Instruments – Recognition and Measurement');
- deferred taxes, and
- presentation of the necessary information in accordance with the IFRS.

b) Basis of measurement

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

2. Basis of preparation (*continued*)

c) Functional and presentation currency

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

d) Use of estimates and judgements

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

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

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

3. Significant accounting policies

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

a) Basis for consolidation

The financial information in the consolidated financial statements include the parent company together with its subsidiaries subject to consolidation.

The Group adopted the following amended IFRS standards starting from 1 January 2014:

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

IFRS 10 "Consolidated financial statements"

IFRS 10 replaces the section of IAS 27 Consolidated and Separate Financial Statements which addresses the accounting of consolidated financial statements. It also addresses issues included in SIC-12 Consolidation - Special Purpose Entities.

IFRS 10 establishes a single control model that applies to all entities, including special purpose entities. The changes introduced by IFRS 10 require the management to operate significant judgements to determine which entities are controlled and must therefore be consolidated by a parent entity, compared to the requirements of IAS 27.

3. Significant accounting policies (*continued*)

a) Basis of consolidation *(continued)*

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

IAS 27 "Separate financial statements" (reviewed)

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

IFRS 12 "Disclosures of interests in other entities"

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

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

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

i) Subsidiaries

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

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

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

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

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

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

3. Significant accounting policies (*continued*)

a) Basis of consolidation *(continued)*

i) Subsidiaries *(continued)*

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

ii) Non-controlling interest

The Group presents the non-controlling interest in its consolidated financial position within equity, separated from the equity of the parent company's owners.
The non-controlling interest is measured proportionally with the percentage held in the net assets of the subsidiary. Changes in ownership interest which do not result in the loss of parent control of the subsidiary, are reflected as equity transactions.

iii) Loss of control

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

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

iv) Investments in associates

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

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

3. Significant accounting policies (*continued*)

a) Basis of consolidation *(continued)*

iv) Investments in associates (continued)

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

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

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

v) Management of investment funds

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

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

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

3. Significant accounting policies (*continued*)

a) Basis of consolidation *(continued)*

vi) Transactions eliminated from consolidation

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

vii) Unconsolidated entities

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

viii) Presentation of the legal merger by absorption in the financial statements

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

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

Due to the lack of specific requirements in the IFRS related to legal mergers by absorption, the Bank decided to present the book value of the acquired identifiable assets and undertaken liabilities in the separate financial statements at the legal merger date, after their initial recognition at fair value at the date when the control was acquired (7 April 2015).

b) Foreign currency transactions

i) Foreign currency transactions

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

Monetary assets and liabilities denominated in foreign currencies at the date of the consolidated and separate statement of financial position are translated to the functional currency at the exchange rate valid at that date.
FX differences are recognized in profit or loss.
Non-monetary assets and liabilities that are measured in terms of historical cost in foreign currency are translated in the functional currency by using the exchange rate at the date of the transaction.
Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the functional currency at the exchange rate valid at the date when the fair value is determined.
FX differences are recognized in profit or loss.

3. Significant accounting policies (*continued*)

b) Foreign currency transactions *(continued)*

ii) Translation of foreign currency operations

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

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

The exchange rates for the major foreign currencies were:

Currency	**31 December 2017**	**31 December 2016**	**Variation %**
Euro (EUR)	1: RON 4.6597	1: RON 4.5411	2.61%
American dollar (USD)	1: RON 3.8915	1: RON 4.3033	(9.57)%

c) Accounting method for the effect of hyperinflation

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

d) Interest income and expenses

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

3. Significant accounting policies (*continued*)

d) Interest income and expenses *(continued)*

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

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

Once a financial asset or a group of similar financial assets has recorded an impairment loss, the interest income is thereafter recognized using the interest rate used to discount the future cash flows for the purpose of measuring the impairment loss applied on the net carrying value of the asset. The subsequent upwards reassessments of the cash flows from loans and advances to clients further to a business combination are presented as part of the interest revenue.

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

e) Fee and commission income

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

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

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

f) Net trading income

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

3. Significant accounting policies *(continued)*

g) Net gain from sale of available-for-sale financial assets

Net gain from the sale of available-for-sale financial assets includes gains and losses from trading financial assets classified as available-for-sale and gains from the disposal of own equity instruments valued at cost. Net gain and loss from the sale of available-for-sale financial assets are recognized in the income statement at the moment of selling the available-for-sale financial assets. They represent the difference between the sale price and the amortized cost of the financial assets classified as available-for-sale.

h) Dividend income

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

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

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

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

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

j) Lease payments

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

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

3. Significant accounting policies *(continued)*

k) Income tax expense

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

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

Similar expense items include the prudential filters representing "positive differences between prudential value adjustments/expected losses determined based on the prudential regulations of the NBR applicable starting with 2012 financial year and impairment adjustments according to IFRS, related to the financial assets subject to such methodologies, to the extent to which they are deducted from own funds according to the applicable prudential regulations". From a tax point of view, prudential filters are deducted from the calculation of current tax and their reduction or cancellation is taxed in the order of their registration. As a result of legislative changes, the prudential filters are determined at a level of 20% of the differences mentioned in the previous paragraph. As at 31 December 2017 the Bank does not have prudential filters.

Deferred tax is determined based on the balance sheet liability method for the temporary differences between the fiscal base for the calculation of the tax on assets and liabilities and their accounting value used for reporting under the consolidated financial statements. Deferred tax is not recognized for the following temporary differences: initial recognition of goodwill, initial recognition of assets and liabilities resulting from transactions which are not business combinations and do not affect the accounting or tax profit and differences resulting from investments in subsidiaries, provided that they are not reversed in the near future and the moment of reversal is being controlled by the entity. The temporary differences may arise in a business combination, so that an entity may recognize any resulting deferred tax assets or liabilities as identifiable assets and liabilities at the acquisition date. The temporary differences arise when the tax bases of the identifiable assets acquired and liabilities assumed are not affected by the business combination.

According to the local tax regulations, the fiscal loss of the company that ceases to exist further to a legal merger by absorption can be acquired and recovered by the absorbing entity. The annual fiscal loss starting 2009, established through the tax statement shall be recovered from the taxable income of the next 7 consecutive years.

For the unutilized fiscal losses, the deferred tax assets are recognized only to the extent to which it is probable to obtain taxable profit in the future after compensation with the tax loss from the previous years and with the recoverable tax on profit. Deferred tax assets are diminished to the extent to which the related tax benefits are unlikely to be achieved. Deferred tax claims are diminished to the extent to which the related tax benefits are unlikely to be achieved.

The tax rate used to calculate the current and deferred tax position at 31 December 2017 is 16% (31 December 2016: 16%).

3. Significant accounting policies *(continued)*

l) Financial assets and liabilities

(i) Classification

The Group and the Bank classify their financial assets and liabilities in the following categories:

Financial assets and liabilities at fair value through profit and loss. This category has two sub-categories: financial assets or financial liabilities held for trading, and financial assets designated at fair value through profit or loss at initial recognition.
A financial instrument is classified in this category if acquired mainly for the purpose of sale or if so designated by the management.

In the separate and consolidated Statement of Financial Position, the category “Financial assets at fair value through profit and loss” comprises listed shares held by the Group and the Bank.

Derivatives are categorized as held-for-trading unless they are designated as a hedging instrument proven to be efficient in terms of risk coverage.

Loans and receivables are financial assets with fixed or determinable payments which are not quoted on an active market, other than those that the Group and the Bank intend to sell immediately or in the near future, those that the Group and the Bank, upon initial recognition, designate at fair value through profit or loss, those that the Group and the Bank, upon initial recognition, designate as available-for-sale or those for which the holder may not recover substantially all of its initial investment, for reasons other than credit deterioration. Loans and receivables comprise loans and advances to banks and customers and lease investments.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group and the Bank have the positive intention and ability to hold to maturity.

Available-for-sale financial assets are those financial assets that are designated as available-for-sale or are not classified as loans and advances, held-to-maturity investments or financial assets at fair value through profit or loss. Available-for-sale assets include treasury bonds and other bonds eligible for discounting with central banks, investments in unit funds and shares, and other securities which are not available-for-trading or held-to-maturity.

Financial assets are valued at cost equity instruments for which there is no active market for identical instruments and their fair value can not be reliably determined. Bank classified in this category participations in subsidiaries in its separate financial statements and securities portfolio activity.

The Group’s and the Bank’s accounting policies initially classify the assets and liabilities into different categories depending on certain circumstances:

3. Significant accounting policies *(continued)*

l) Financial assets and liabilities *(continued)*

(i) Classification (continued)

- In classifying financial assets or liabilities as “trading”, the Group and the Bank have determined that it meets the description of trading assets and liabilities set out in accounting policy 3 (l);
- In classifying financial assets as “held-to-maturity”, the Group and the Bank have determined that it has both the positive intention and ability to hold the assets until their maturity date as required by its accounting policy.

If the Group and the Bank fail to keep these investments to maturity other than for the specific circumstances mentioned in IAS 39, they will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value not amortized cost. Investments would, thus, be evaluated la fair value and nu at amortized cost. If the entire class of held-to-maturity investments is tainted, the fair value would not be significantly different from the carrying amount.

(ii) Recognition

Financial assets and financial liabilities are initially recognized at fair value plus directly attributable transaction costs, in case of financial assets and financial liabilities other than those stated at fair value through profit or loss.

The Group and the Bank initially recognize available-for-sale financial assets at the date of their origination and all other financial assets and liabilities are initially recognized at the trading date at which the Group and the Bank became a party to the contractual provisions of the financial instrument.

(iii) Derecognition

The Group and the Bank derecognize a financial asset when the contractual rights to the cash flows resulting from the respective asset expire, or when the Group and the Bank transfer the rights to receive the contractual cash flows related to the financial asset within a transaction in which all the risks and benefits of ownership of the financial asset are substantially transferred. Any interest in the transferred financial assets created or retained by the Group and the Bank are recognized as a separate asset or liability.

Upon derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the transferred portion of the asset), and the sum of (1) the consideration received (including any new asset obtained less any new liability assumed) and (2) any cumulative gain or loss that would be recognized in other comprehensive income, is recognized in the income statement.

The Group and the Bank derecognize a financial liability when its contractual settled obligations are cancelled or expire.
The Group and the Bank enter into transactions whereby they transfer assets recognized on the consolidated financial position, but they retain either all risks or rewards of the transferred assets or a portion thereof. If all or a substantial portion of risks and rewards are retained, then the transferred assets are not derecognized from the consolidated and separate financial position. Transfers of assets with retention of all risks and rewards or of a substantial portion thereof include, for example, securities lending and repurchase transactions.

3. Significant accounting policies *(continued)*

l) Financial assets and liabilities *(continued)*

(iii) Derecognition (continued)

When assets are sold to a third party with a total rate of return swap on the transferred assets, the transaction is accounted for as a secured financial transaction similar to repurchase transactions. In transactions where the Group and the Bank neither retain nor transfer substantially the risks and rewards arising from the ownership of a financial asset, the asset is derecognized if control over such asset is lost.
The rights and obligations retained in the transfer are recognized separately as assets and liabilities, as appropriate. In transfers where control over the asset is retained, the Group and the Bank continue to recognize the asset to the extent of their continuing involvement, determined by the extent to which they are exposed to changes in the value of the transferred asset.

(iv) Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated and separate statement of financial position when and only when there is a legal enforceable right to set off the recognized amounts and there is an intention to settle them on a net basis, or to realize the asset and clear the liability simultaneously. In 2017 and 2016 no off-setting was required.
Incomes and expenses are presented on a net basis only when permitted by the accounting standards, or as profit and loss arising from a group of similar transactions, such as in the Group's and the Bank's trading activity.

(v) Amortized cost measurement

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured upon initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, less any reduction for impairments on assets.

(vi) Fair value measurement

Fair value is the price that would be received after the sale of an asset or the price paid to transfer a liability in an orderly transaction between market participants at the measurement date, in principal, or, in its absence, the price on the most advantageous market to which the Group and the Bank have access at the respective date. The fair value of liability reflects its non-performance risk.
When available, the Group and the Bank measure the fair value of an instrument using the quoted price on an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.
If there is no quoted price on an active market, then the Group and the Bank use valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs.
The selected valuation technique incorporates all of the factors that market participants would take into account when pricing a transaction.
The best evidence of fair value of a financial instrument upon initial recognition is normally the transaction price – the fair value of a consideration given or received. If the Group and the Bank determine that the fair value upon initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price on an active market for an identical asset or liability, nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value upon initial recognition and the transaction price.

3. Significant accounting policies *(continued)*

l) Financial assets and liabilities *(continued)*

(vi) Fair value measurement (continued)

Subsequently, that difference is recognized in the income statement on an appropriate basis over the life of an instrument, but no later than when the valuation is wholly supported by observable market data or the transaction is closed.

The Group and the Bank recognize the transfers between hierarchical fair value levels at the end of the reporting period during which the change has occurred.

(vii) Identification and measurement of impairment

At each date of the consolidated and separate statement of financial position, the Group and the Bank assess whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired.

A financial asset or a group of financial assets is impaired only if there is objective evidence regarding its impairment as a result of one or more events occurred after the initial recognition ("loss generating event"), and the loss generating event(s) has an impact on the future cash flows of the asset that can be estimated reliably.

It is probable that the identification of a single event responsible for the impairment may be difficult. Impairment may have been caused by the combined effect of multiple events. The expected losses as a result of future events, regardless of their probability, are not recognized.

If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the updated value of estimated future cash flows discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition).
If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current variable interest rate, specified in the contract. The asset's accounting value can be decreased directly or by using an impairment account. The expense with impairment losses is recognized in the statement of profit or loss.
If during a future period, an event that took place after the date of impairment recognition generates a decrease in the impairment expense, the formerly recognized impairment loss is restated either directly or through the adjustment of an impairment account. The impairment decrease is recognized in the statement of profit or loss.

Loans and advances to customers and financial leasing receivables

The Group and the Bank, based on their internal methodology for impairment assessment, have included information on the following loss events, as objective evidence for the impairment of loans and advances to customers or groups of customers and financial leasing receivables:

- **a)** significant financial difficulty of the borrower (lessee) determined in accordance with the Group's and the Bank's internal rating system;
- **b)** a breach of contract, such as a default or delay in interest or principal payments (individually and in the same group of borrowers);
- **c)** the lender, due to economic or legal reasons relating to the borrower's or the lessee's financial difficulty, grants to the borrower certain concessions that the lender would not have otherwise considered, such as rescheduling the interest or principal payments;
- **d)** there are indications that the borrower will enter bankruptcy or other financial reorganization;

3. Significant accounting policies *(continued)*

l) Financial assets and liabilities *(continued)*

(vii) Identification and measurement of impairment (continued)

Loans and advances to customers and financial leasing receivables (continued)

e) credible information indicating a measurable decrease in the estimated future cash flows of a group of financial assets, starting from the date of initial recognition, although the decrease cannot be identified for each individual asset, including:
- unfavorable change in the payment behavior of the Group's debtors, or
- national or local economic circumstances that can be correlated with the loss/depreciation of the Group's and Bank's assets.

The Group and the Bank assess whether objective evidence of impairment exists as described above, individually for loans to customers and financial leasing receivables that are individually significant, and individually or collectively for loans to customers and financial leasing receivables that are not individually significant.

If the Group and the Bank determine that no objective evidence of impairment exists, as presented above, with respect to an individually assessed financial asset, whether significant or not, they shall include the loans to customers and financial leasing receivables into a group with similar credit risk characteristics and shall collectively assess them for impairment. The loans to customers and financial leasing receivables individually assessed, for which an individual impairment is recognized or continues to be recognized, are no longer included in the groups with similar credit risk characteristics under the collective assessment.

The calculation of the present value of the future cash flows of a collateralized loan and a financial leasing receivable reflects the cash flows that may result from foreclosure, less the costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective assessment of impairment, loans and advances to customers and financial leasing receivables are grouped on the basis of similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due, according to the contractual terms (for example, grouping based on separate lines of business, type of loan, currency, maturity, debt service and so on).

The management considers that these selected characteristics are the best estimates of credit risk features, being relevant for the estimation of future cash flows for groups of such loans and financial leasing receivables, and being indicative of the debtors' ability to pay all amounts due according to the contractual terms.

Future cash flows in a group of loans and advances to customers and financial leasing receivables collectively evaluated for impairment are estimated on the basis of historical loss experience related to loans and financial leasing receivables with credit risk characteristics similar to those of the Group and of the Bank.

Historical loss is adjusted on the basis of current observable data in order to reflect the effects of current conditions that did not affect the period on which the historical loss was calculated and to remove the effects of conditions in the historical period that do no longer apply.

The Group and the Bank regularly review the methodology and assumptions used to estimate future cash flows to reduce differences between estimated and actual losses.

3. Significant accounting policies *(continued)*

l) Financial assets and liabilities *(continued)*

(vii) Identification and measurement of impairment (continued)

Financial assets available-for-sale

For financial assets classified as available-for-sale, when a decline in the fair value of an available-for-sale financial asset has been recognized directly in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that has been recognized directly in other comprehensive income shall be restated directly from other comprehensive income and recognized in profit or loss even though the financial asset has not been derecognized yet.

The amount of the cumulative loss that is released from other comprehensive income and recognized in profit or loss shall be the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in income statement. Impairment losses recognized in the income statement as an investment in an instrument available-for-sale shall not be restated through profit or loss.

If, in a subsequent period, the fair value of an available-for-sale asset increases and the increase can be objectively related to an event occurring after the impairment loss had been recognized in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognized in result of the period.

Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unlisted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to or is to be settled by delivery of such an unlisted instrument, the amount of impairment loss is measured as the difference between the carrying amount of the financial asset and the updated value of estimated future cash flows by using the current market rate of return for a similar financial asset. At derecognition such impairment losses are not reversed in the income statement.

(viii) Designation at fair value through profit and loss

The Group and the Bank designate financial assets and liabilities at fair value through profit and loss when:

- they eliminate or reduce significantly an evaluation or recognition mismatch (“accounting error”) which might have arisen from the measurement of the assets and liabilities or from the recognition of their gain or loss based on different principles;
- they are part of a group of financial assets or liabilities managed, evaluated and reported to the management on a fair value basis according to the risk management documentation / investment strategy; or
- they are hybrid contracts through which an entity can reflect the entire contract at fair value through profit or loss.

3. Significant accounting policies *(continued)*

m) Cash and cash equivalents at Central Bank

Cash and cash equivalents at Central Bank comprise: cash at hand, unrestricted balances held with National Bank of Romania and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of fair value changes.
Cash and cash equivalents at Central Bank are carried at amortized cost in the consolidated and separate statement of financial position.

n) Assets and liabilities held for trading

Assets and liabilities held for trading are those assets and liabilities that the Group and the Bank acquire or incur mainly for the purpose of selling or repurchasing them in the near future, or hold as part of a portfolio in order to obtain a short-term profit or to maintain a short-term position.

Trading assets and liabilities are initially recognized and subsequently measured at fair value in the consolidated and separate statement of the financial position and the transaction costs are recorded directly in the statement of profit and loss. All changes in fair value are recognized as part of net trading income in the income statement. Trading assets and liabilities may be reclassified after their initial recognition only in rare circumstances.

o) Derivatives

(i) Derivatives held for risk management purposes

Derivatives held for risk management purposes include all derivative assets and liabilities that are classified as assets or liabilities held for trading. Derivatives held for risk management purposes are measured at fair value in the consolidated and separate statement of the financial position.

When a derivative is not held for trading, and is not involved in a hedge transaction, all changes in its fair value are recognized immediately in the profit for the period, as a component of net trading income.

(ii) Embedded derivatives

Derivatives may be embedded in another contractual arrangement ("host contract"). The Group and the Bank account for embedded derivatives separately from the host contract when the host contract is not itself carried through profit and loss, and the characteristics of the embedded derivatives are not clearly and closely related to the host contract. Separate embedded derivatives are accounted for depending on their classification and are presented in the consolidated and separate statement of the financial position together with the host contract.

p) Loans and advances and financial leasing receivables

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market and that the Group and the Bank do not intend to sell immediately or in the near term.
When the Group is the lessor in a lease agreement through which it transfers to the lessee all the significant risks and rewards incidental to the property of an asset, the arrangement is presented under loans and advances. Consumer loans granted by the Bank's subsidiaries to customers are also included in financial leasing receivables.

3. Significant accounting policies *(continued)*

p) Loans and advances and financial leasing receivables *(continued)*

Loans and advances and financial leasing receivables are initially measured at fair value plus direct transaction costs, and subsequently measured at their amortized cost by using the effective interest method as described in the accounting policy 3(d) above, except when the Group and the Bank choose to carry the loans and advances and net lease investments at fair value through profit or loss as described in accounting note 3(l) (viii).

Loans, advances and financial leasing receivables are stated at net value after deducting the provision for impairment. The provision is recorded based on the loans, advances and financial leasing receivables, identified as impaired based on continuous assessment, in order to bring these assets to their recoverable amount.

q) Investment securities

(i) Held-to-maturity

Investment securities are initially measured at fair value plus direct transaction costs and subsequently accounted for depending on their classification either as held-to-maturity, at fair value through profit and loss, as available-for-sale or as loans and receivables.

Held-to-maturity investments are carried at amortized cost using the effective interest method. Any sale or significant reclassification of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent the Group and the Bank from classifying investment securities as held-to-maturity for the current and the following two financial years.
However, sales and reclassifications would not trigger a reclassification in any of the following circumstances: sales or reclassifications which are so close to maturity that changes in the market interest rate would not have a significant effect on the financial asset's fair value; sales or reclassifications after the Group and the Bank have substantially collected the asset's principal; sales or reclassifications attributable to non-recurring isolated events beyond the Group's and the Bank's control that could not have been reasonably anticipated.

(ii) Fair value through profit or loss

The Group and the Bank carry some investment securities at fair value, with fair value changes recognized immediately in profit or loss as described in accounting policy 3(n).

(iii) Available-for-sale

Debt securities such as treasury bills issued by the Government of Romania are classified as available-for-sale assets.

The Group and the Bank considered that the effective transaction prices would be situated between the informative BID-ASK quotations obtained, which are rather an interval within which the Group and the Bank could have realistically negotiated the quotations for each series and volume of its security portfolio, and thus, the Group used in its estimation an average price for each series. Other securities such as investments in unit funds are classified as available-for-sale assets and are carried at their fair values.

Other equity investments in listed or unlisted companies are classified as available-for-sale assets and are carried at the fair value. Where no reliable estimate of fair value is available, equity investments are stated at restated cost less impairment.

3. Significant accounting policies *(continued)*

q) Investment securities *(continued)*

(iii) Available-for-sale (continued)

Interest income is recognized in profit and loss by using the effective interest method. Dividends are recognized in profit and loss when the Group and the Bank become entitled to the dividends. Foreign exchange gains or losses on available-for-sale securities are recognized in the profit and loss.
Other fair value changes are recognized directly in other comprehensive income until the investment is sold or impaired and the fair value balance from other comprehensive income is recycled in the profit or loss.

(iv) Loans and advances

Investments in securities such as corporate bonds are classified as loans and advances and are held at amortized cost using the effective interest rate method.

r) Tangible assets

(i) Recognition and measurement

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

Measurement upon initial recognition

The cost of a fixed asset item consists in:

a) the acquisition price, including customs charges and non-refundable acquisition costs, after the deduction of all commercial discounts;

b) any costs directly incurred in order to bring the asset at the adequate location or condition required by the management for proper functioning.

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

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

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

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

3. Significant accounting policies *(continued)*

r) Tangible assets *(continued)*

(i) Recognition and measurement(continued)

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

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

(ii) Subsequent costs

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

(iii) Depreciation

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

The estimated useful lives are as follows:

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

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

s) Investment property

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

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

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

3. Significant accounting policies *(continued)*

s) Investment property *(continued)*

(i) Recognition and measurement (continued)

Investment property is recognized as an asset when:

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

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

(ii) Derecognition

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

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

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

(iii) Transfers

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

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

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

t) Intangible assets

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

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

3. Significant accounting policies *(continued)*

t) Intangible assets (continued)

(i) Goodwill and negative goodwill

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

Subsequent measurement

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

(ii) Software

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

(ii) Software

Costs that are directly associated with the production of identifiable and unique software products controlled by the Group and the Bank, and that will probably generate economic benefits exceeding production costs for a period exceeding one year, are recognized as intangible assets. Subsequent expenditure on software assets is capitalized only if it increases the future performance of such assets, beyond initial specifications and lifespan. All other expenditure is reflected as an expense as incurred.
Amortization is recognized in the income statement on a straight-line basis over the estimated useful life of the intangible asset. The estimated useful lives of intangible assets are reviewed at the reporting date and range between 1 and 5 years. The useful life of intangible assets derived from contractual rights should not exceed the validity period of such contractual rights, but it may be shorter depending on the estimated period of use of such assets by the entity.
Intangible assets in progress are not amortized before they are put into service.

u) Non-curent assets held for sale

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

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

3. Significant accounting policies *(continued)*

v) Financial lease – lessee

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

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

w) Impairment of non-financial assets

An impairment loss is recognized if the carrying amount of the asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable group generating cash flows and largely independent from other assets and groups. Impairment losses recognized in respect of cash-generating units are allocated to reduce the carrying amount of any goodwill allocated to the respective cash-generating unit (group of units) and then to reduce the carrying amount of any other assets in the unit on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value, less the cost of sale of such asset or unit. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments and the risks specific to the asset.
In respect of non-financial assets, impairment losses are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss in non-financial assets than goodwill is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss on assets is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

x) Customer deposits

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

y) Issued bonds, loans from banks and other financial institutions

Borrowings such as loans from banks and other financial institutions and issued bonds are initially recognized at fair value, notably as proceeds resulting from such instruments (fair value of consideration received), net of transaction costs incurred. Issued bonds and loans from banks and other financial institutions are subsequently carried at amortized cost. The Group and the Bank classify these instruments as financial liabilities or equity instruments in accordance with the contractual terms of the instrument. The outstanding bonds that have not yet reached the maturity or liquidation date can be converted into shares, depending on the option of the holder, according to the issuance prospectus. The conversion shall be made at a price per share that is established at the price fixing date or at the liquidation date, which is equal to the average of the daily maximum and minimum share price on the regular market, weighted with the daily volume traded on the regular market throughout the 90 days when the shares were transacted on the Bucharest Stock Exchange, immediately prior to the price fixing date of the liquidation date. Share premiums result as a difference between the value of convertible bonds and the value of shares issued.

3. Significant accounting policies *(continued)*

z) Provisions

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

Provisions for covering the risk of transforming off-balance sheet credit commitments into credits are considered at the time when the Bank records in its off balance sheet a commitment with the risk of being converted into a credit. The calculation basis for these provisions includes exposures from commitments related to documentary credits, bank guarantee letters, undrawn facility of bank loans and factoring commitments. The calculation is based on the probability of conversion into credit, the probability of default and loss given default.

aa) Financial guarantees

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

ab) Employee benefits

(i) Short-term benefits

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

(ii) Defined contribution plan

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

(iii) Other benefits

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

3. Significant accounting policies *(continued)*

ab) Employee benefits *(continued)*

(iii) Other benefits*(continued)*

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

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

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

ac) Segment reporting

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

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

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

ad) Earnings per share

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

ae) Own shares

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

af) Business Combinations

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

3. Significant accounting policies *(continued)*

af) Business Combinations *(continued)*

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

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

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

ag) Adoption of New or Revised Standards and Interpretations

The following amended standards became effective for the Group from 1 January 2017:

Recognition of Deferred Tax Assets for Unrealized Losses - Amendments to IAS 12 (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017).

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

Disclosure Initiative - Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017).

The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. The Group is currently assessing the impact of the amendments on its financial statements.

3. Significant accounting policies *(continued)*

ag) Adoption of New or Revised Standards and Interpretations *(continued)*

Annual improvements to IFRS 2014-2016 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2017, not yet endorsed by the EU). The amendments clarify the scope of the disclosure requirements in IFRS 12 by specifying that the disclosure requirements in IFRS 12, other than those relating to summarized financial information for subsidiaries, joint ventures and associates, apply to an entity's interests in other entities that are classified as held for sale or discontinued operations in accordance with IFRS 5.

ah) New standards and interpretations effective as of or after 1 January 2018

New standards and interpretations have been issued, which are effective for annual periods beginning on or after 01 January 2018 and which the Group and the Bank had not implemented in advance.

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

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

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

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

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

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

3. Significant accounting policies *(continued)*

ah) New standards and interpretations effective as of or after 1 January 2018 *(continued)*

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

Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging. The Group is currently assessing the impact of the amendments on its financial statements.

As of 1 January 2018, the Group will adopt IFRS 9, as issued by IASB in July 2014, thus amending its accounting policies and operating adjustments of the amounts formerly recognized in the financial statements. The Group did not adopt IFRS 9 with anticipation in the previous periods.

In line with the transitional provisions in IFRS 9, the Group has decided not to present comparative figures as at 31 December 2017. Upon the transition, any book value adjustments related to the financial assets and liabilities will be recognized in the initial retained earnings and in other reserves from the current period. Moreover, the Group has decided to continue to apply the IAS 39 requirements on hedge accounting upon the implementation of IFRS 9.

The implementation of IFRS 9 will result in the modification of the accounting policies for the recognition, classification and assessment of financial assets and liabilities, as well as the depreciation of financial assets. Additionally, IFRS 9 brings significant amendments to other standards regarding financial instruments, such as IFRS 7 “Financial instruments: Disclosures”.

Starting with 1 January 2018, the Bank will implement IFRS 9, the new accounting standard for financial instruments.. The Bank defines three stages:

- Stage 1 includes financial assets for which there is no significant increase in credit risk at the time of the analysis compared to the origination date or has a low credit risk exemption at the time of the analysis;
- Stage 2 includes financial assets for which there was a significant increase in credit risk at the time of the analysis compared to the original recognition date (less for assets that have a low credit risk exemption) and which are not reported as impaired (or impairment evidence are not identified);
- Stage 3 (default) includes financial assets for which impairment evidence have been identified at the reporting date.

Banca Transilvania assesses its own financial assets in order to determine whether it is experiencing a significant increase in credit risk (probability or risk of default) as compared to the initial recognition date or whether that credit is impaired.

In determining whether credit risk increases have occurred and whether this is significant, the bank uses the following information / triggers:

- information on the debt service (number of days overdue) - The Bank uses the Relative overdue presumption of more than 30 days;
- negative changes in the internal rating of customers;
- the comparison between estimated PD at credit origination and PD Lifetime determined at reporting date;
- other present or predicted significant adverse change in the regulatory, economic, or technological environment of the borrower that results in a significant change in the borrower's ability to meet its debt obligations;
- other information/triggers.

3. Significant accounting policies *(continued)*

ah) New standards and interpretations effective as of or after 1 January 2018 *(continued)*

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

All financial assets with assigned rating (at reporting date) of „investment grade” nature will be classified in stage I – the bank will apply „low risk exception”.

We expect the implementation of IFRS 9 to result in an increase in the impairment allowance of no more than approximately million RON 170, as a result of the introduction of the new expected credit loss impairment model. Given the complexity of the new standard, the Bank will continue in the first half of 2018 to further refine, calibrate and also validate its underlying IFRS 9 impairment methodologies. Banca Transilvania does not intend to restate comparative statements of 2017 as result implementation IFRS 9, the new accounting standard for financial instruments.

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

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

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).

These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business. A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if such assets are held by a subsidiary.

IFRS 16 - Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2018).

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

3. Significant accounting policies *(continued)*

ah) New standards and interpretations effective as of or after 1 January 2018 *(continued)*

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

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

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

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

Finally, the amendments also clarify accounting for cash-settled share based payments that are modified to become equity-settled, as follows (a) the share-based payment is measured by reference to the modification-date fair value of the equity instruments granted as a result of the modification; (b) the liability is derecognized upon the modification, (c) the equity-settled share-based payment is recognized to the extent that the services have been rendered up to the modification date, and (d) the difference between the carrying amount of the liability as at the modification date and the amount recognized in equity at the same date is recorded in profit or loss immediately.

Annual improvements to IFRS 2014-2016 - amendments to IFRS 1 and IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2017 for amendments to IFRS 12, and beginning on or after 1 January 2018).

IFRS 1 was amended and some of the short-term exemptions from IFRSs in respect of disclosures about financial instruments, employee benefits and investment entities were removed, after those short-term exemptions have served their intended purpose. The amendments to IAS 28 clarify that an entity has an investment-by-investment choice for measuring investees at fair value in accordance with IAS 28 by a venture capital organisation, or a mutual fund, unit trust or similar entities including investment linked insurance funds.

3. Significant accounting policies *(continued)*

ah) New standards and interpretations effective as of or after 1 January 2018 *(continued)*

Annual improvements to IFRS 2014-2016 - amendments to IFRS 1 and IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2017 for amendments to IFRS 12, and beginning on or after 1 January 2018) - *(continued)*

Additionally, an entity that is not an investment entity may have an associate or joint venture that is an investment entity.
IAS 28 permits such an entity to retain the fair value measurements used by that investment entity associate or joint venture when applying the equity method. The amendments clarify that this option is also available on an investment-by-investment basis.

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

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

Transfers of Investment Property - Amendments to IAS 40 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018). The amendments clarify the requirements on transfers to, or from, investment property in respect of properties under construction. Prior to the amendments, there was no specific guidance on transfers into, or out of, investment properties under construction in IAS 40. The amendment clarifies that there was no intention to prohibit transfers of a property under construction or development, previously classified as inventory, to investment property when there is an evident change in use. IAS 40 was amended to reinforce the principle of transfers into, or out of, investment property in IAS 40 to specify that a transfer into, or out of investment property should only be made when there has been a change in use of the property. A change in use would involve an assessment of whether the property qualifies as an investment property. Such a change in use should be supported by appropriate evidence.

3.Significant accounting policies *(continued)*

ah) New standards and interpretations effective as of or after 1 January 2018 *(continued)*

IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019. This standard is not yet endorsed by the European Union).

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

An entity should assume that a fiscal authority will examine the amounts with respect to which it has the right of examination and the full knowledge of the related information when performing the examination. If en entity reaches the conclusion that it is highly unlikely for the fiscal authority to accept an uncertain tax treatment, the impact of such uncertainty shall be reflected in the calculation of the related taxable profit or loss, of the tax base, of the unutilized tax losses, of the unutilized tax credit or tax rates, by using the most probable value or the estimated value depending on the entity's approach that best foresees the resolution of such uncertainty.
An entity shall consider the impact of any change in events or circumstances or in new information affecting the assumptions of interpretation as a change in accounting assumptions. Examples of changes in events and circumstances or in new information that may cause the revaluation of an assumption include but are not limited to examinations or actions undertaken by a fiscal authority, modifications of the rules established by a fiscal authority or the expiry of a fiscal authority's right to analyze or reanalyze a fiscal change. The lack of understanding or misunderstanding by a fiscal authority regarding a fiscal change is unlikely to represent a change in events and circumstances or in new information influencing the interpretation-related assumptions.

Long-term interest on related entities and business combinations - Amendments to IAS 28 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019. This standard is not yet endorsed by the European Union).
The amendments clarify that the reporting entities should apply IFRS 9 with respect to long-term borrowings, preferential shares and similar instruments included in a net investment based on the the equity method prior to diminishing the book value by the loss of the entity resulting from the investment made, which exceeds the investor's interest in ordinary shares.

3. Significant accounting policies *(continued)*

ah) New standards and interpretations effective as of or after 1 January 2018 *(continued)*

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

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

4. Financial risk management

a) Introduction

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

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

This note presents information about the Group's and the Bank's exposure to each of the above risks and, the Group's and the Bank's objectives, policies and processes for measuring and managing risk.
The most important types of financial risk to which the Group and the Bank are exposed: credit risk, liquidity risk and market risk. Market risk includes currency risk, interest rate risk and equity instruments' price risk.
Risk management is part of all decisional and business processes that take place in the Group's and the Bank's activity. The Board of Directors has the responsibility regarding the definition and monitoring of the general risk management framework for the Group and the Bank.

4. Financial risk management *(continued)*

a) Introduction *(continued)*

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

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

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

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

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

The crisis simulation process is an integral part of the risk management process.

The Bank reviews the crisis simulation program regularly, at least semi-annually, and assesses its efficiency and adequacy to the defined purposes/objectives.

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

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

4. Financial risk management *(continued)*

b) Credit risk

(i) Credit risk management

The objective of the Group and of the Bank as concerns the management of credit risk is to ensure a balanced distribution of capital among various business lines, which allows the achievement of comfortable ratios between the shareholders' equity and the risk weighted assets, considering the proportion of the lending activity in the Bank's assets and the commercial bank profile of Banca Transilvania.

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

The Group's and the Bank's primary exposure to credit risk arises from loans and advances to customers.

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

In addition, the Group and the Bank are exposed to off balance sheet credit risk from credit and guarantee commitments (see Note 44).

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

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

- The analysis, assessment and monitoring of specific risks within the lending activity;
- The risk analysis of the loan portfolio/large exposures, with recommendations submitted to the Leaders' Committee/Board of Directors;
- Monitoring the observance of internal policies specific to the lending activities;
- Elaborating proposals for the reduction of specific risks, in order to maintain healthy standards in the lending activity;
- The authorization/preparation/monitoring and the approval of the internal rating systems and of the internal models used in risk assessment;
- Monitoring the granted loans, in accordance with the client's financial performance, loan type, collateral type and debt service, in accordance with the internal lending policies and procedures;
- The approval and monitoring of ratios related to the establishment/modification of the branches' lending competences, according to specific internal policies;
- The periodic reviews and recommendations to the Leaders' Committee on the risk levels accepted by the Group and the Bank;

4. Financial risk management *(continued)*

b) Credit risk *(continued)*

(i) Credit risk management (continued)

- Identifying, monitoring and controlling the credit risk at branch level and subsidiary level;
- The risk analysis with respect to new lending products/changes of loan products, including recommendations to the involved Departments;
- The periodical reporting to the Deputy CEO - Chief Risk Officer, Leaders' Committee, Risk Management Committee and the Board of Directors on the evolution of significant risks (the implications of risk correlation, forecasts etc.);
- Loan portfolio analysis, both at individual level and by group of financial assets with similar characteristics in order to determine if there is any objective evidence of impairment, and assessment of impairment losses and related allowances in accordance with IFRS.

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

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

The Group and the Bank classified the exposures according to the risk level of the potential financial losses. The risk classification system is used to determine the risk monitoring activities and relations with the customers. The scoring system reflects different levels of default risk and is reviewed periodically.

(ii) Credit risk exposure

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

4. Financial risk management *(continued)*

b) Credit risk *(continued)*

(ii) Credit risk exposure (continued)

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

	Group		Bank	
	2017	**2016**	**2017**	**2016**
Retail	50.09%	49.40%	50.12%	49.01%
Production	11.48%	11.62%	11.14%	11.25%
Trading	10.58%	11.45%	10.13%	11.14%
Constructions	4.95%	5.39%	4.72%	5.20%
Agriculture	4.62%	4.75%	4.52%	4.64%
Services	3.94%	3.91%	3.78%	3.81%
Transportation	3.33%	3.03%	2.66%	2.58%
Real estate	2.74%	2.28%	2.83%	2.37%
Others	2.67%	2.05%	2.59%	2.01%
Energy	1.43%	1.94%	1.44%	1.93%
Self-employed	1.93%	1.81%	1.80%	1.79%
Telecommunications	0.83%	0.91%	0.81%	0.90%
Financial institutions	0.57%	0.51%	2.66%	2.49%
Mining	0.33%	0.44%	0.27%	0.35%
Chemical industry	0.43%	0.43%	0.45%	0.45%
Fishing	0.05%	0.05%	0.05%	0.05%
Government institutions	0.03%	0.03%	0.03%	0.03%
	100.00%	**100.00%**	**100.00%**	**100.00%**

At 31 December 2017, the total irrevocable on-balance and off-balance sheet exposure was of RON 33,753,020 thousand (31 December 2016: RON 30,906,607 thousand) for the Group and RON 33,293,648 thousand (31 December 2016 RON 30,783,134 thousand) for the Bank. The amounts presented above reflect the maximum accounting loss that would be recognized at the reporting date if the customers failed completely to perform their contractual obligations and if any collateral or security proved to be of no value.

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

4. Financial risk management (*continued*)

b) Credit risk *(continued)*

(ii) Credit risk exposure (continued)

The Group and the Bank use risk grades for loans both individually and collectively assessed. According to the Group's and the Bank's policies, an appropriate risk grade can be allocated to a loan, based on five scale clasification: low risk (grade 1), moderate risk (grades 2-3), medium risk (grades 4-6), high risk (grade 7) and highest risk represented by impaired loans (grade 8). Loan classification on risk grades is based mainly on the customers payment behaviour on the existance of forbearance measures and on impairment signs identified when performing the individual assessment, the risk grade (8) resulting mainly from the exposure linked to non-performing loans and loans for which the legal recovery process was initiated.

The exposures to credit risk for loans and advances to customers and financial leasing receivable **at Group level, as at 31 December 2017** are presented below:

			Loans and leases to retail customers					Loans and leases to companies				
	Note	Total 2017		In RON		In FCY			In RON		In FCY	
At amortized cost			***Total Retail***	**< 5 years**	**> 5 years**	**< 5 years**	**> 5 years**	***Total Companies***	**< 5 years**	**> 5 years**	**< 5 years**	**> 5 years**
Grade 1 Low risk		27,488,006	15,219,447	3,995,734	7,961,740	136,579	3,125,394	12,268,559	8,043,034	2,075,201	1,159,504	990,820
Grade 2-3 Moderate risk		1,650,686	874,093	291,069	266,375	80,908	235,741	776,593	464,338	43,295	248,977	19,983
Grade 4-6 Medium risk		513,795	90,163	127	36,296	6	53,734	423,632	259,153	94,284	27,006	43,189
Grade 7 High risk		914,257	185,262	18,185	44,669	10,942	111,466	728,995	406,771	134,447	133,883	53,894
Grade 8 Impaired		1,553,909	595,105	140,264	118,422	23,808	312,611	958,804	658,706	68,884	206,659	24,555
Gross value	**21, 22**	**32,120,653**	**16,964,070**	**4,445,379**	**8,427,502**	**252,243**	**3,838,946**	**15,156,583**	**9,832,002**	**2,416,111**	**1,776,029**	**1,132,441**

4. Financial risk management (*continued*)

b) Credit risk *(continued)*

(ii) Credit risk exposure (continued)

Gross values, neither past due nor impaired	Total 2017	Loans and leases to retail customers					Loans and leases to companies				
		Total Retail	In RON		In FCY		*Total Companies*	In RON		In FCY	
			< 5 years	> 5 years	< 5 years	> 5 years		< 5 years	> 5 years	< 5 years	> 5 years
Grade 1 Low risk	26,396,172	14,432,393	3,840,773	7,599,899	127,022	2,864,699	11,963,779	7,860,858	2,020,503	1,105,579	976,839
Grade 2-3 Moderate risk	938,937	384,517	159,402	83,297	70,198	71,620	554,420	339,876	16,978	188,726	8,840
Grade 4-6 Medium risk	257,505	2,418	-	36	6	2,376	255,087	102,909	89,008	22,339	40,831
Total	**27,592,614**	**14,819,328**	**4,000,175**	**7,683,232**	**197,226**	**2,938,695**	**12,773,286**	**8,303,643**	**2,126,489**	**1,316,644**	**1,026,510**

Gross values on outstanding, of loans and advances and leases past due but not impaired	Total 2017	Loans and leases to retail customers					Loans and leases to companies				
		Total Retail	In RON		In FCY		*Total Companies*	In RON		In FCY	
			< 5 years	> 5 years	< 5 years	> 5 years		< 5 years	> 5 years	< 5 years	> 5 years
1-15 days	1,195,315	874,288	182,357	386,571	13,901	291,459	321,027	192,083	56,203	58,047	14,694
15-30 days	364,948	245,472	48,137	106,394	2,839	88,102	119,476	60,821	9,363	46,082	3,210
30-60 days	260,498	195,757	39,130	73,105	2,791	80,731	64,741	40,038	10,979	7,901	5,823
60-90 days	67,730	41,374	17,004	13,347	736	10,287	26,356	18,344	4,470	2,146	1,396
Total	**1,888,491**	**1,356,891**	**286,628**	**579,417**	**20,267**	**470,579**	**531,600**	**311,286**	**81,015**	**114,176**	**25,123**

4. Financial risk management (*continued*)

b) Credit risk *(continued)*

(ii) Credit risk exposure (continued)

Gross value of loans and receivables impaired	Total 2017	Loans and leases to retail customers					Loans and leases to companies				
			In RON		In FCY			In RON		In FCY	
		Total Retail	< 5 years	> 5 years	< 5 years	> 5 years	*Total Companies*	< 5 years	> 5 years	< 5 years	> 5 years
Grade 4-6 Medium risk	171,382	7,484	127	1,762	-	5,595	163,898	151,596	5,276	4,667	2,359
Grade 7 High risk	914,257	185,262	18,185	44,669	10,942	111,466	728,995	406,771	134,447	133,883	53,894
Grade 8 Impaired	1,553,909	595,105	140,264	118,422	23,808	312,611	958,804	658,706	68,884	206,659	24,555
Total	**2,639,548**	**787,851**	**158,576**	**164,853**	**34,750**	**429,672**	**1,851,697**	**1,217,073**	**208,607**	**345,209**	**80,808**

Impairment allowances	Note	Total 2017	Loans and leases to retail customers					Loans and leases to companies				
				In RON		In FCY			In RON		In FCY	
			Total Retail	< 5 years	> 5 years	< 5 years	> 5 years	*Total Companies*	< 5 years	> 5 years	< 5 years	> 5 years
Individual		(1,036,165)	(107,874)	(13,168)	(37,987)	(3,237)	(53,482)	(928,291)	(612,105)	(108,601)	(175,730)	(31,855)
Collective		(835,526)	(507,155)	(174,120)	(107,292)	(8,212)	(217,531)	(328,371)	(217,353)	(40,340)	(44,511)	(26,167)
Total impairment allowances	**21, 22**	**(1,871,691)**	**(615,029)**	**(187,288)**	**(145,279)**	**(11,449)**	**(271,013)**	**(1,256,662)**	**(829,458)**	**(148,941)**	**(220,241)**	**(58,022)**

Notes to the Consolidated and Separate Financial Statements

4. Financial risk management (*continued*)

b) Credit risk *(continued)*

(ii) Credit risk exposure (continued)

The exposures to credit risk for loans and advances to customers and financial leasing receivables **at Group level, as at 31 December 2016** are presented below:

			Loans and leases to retail customers					**Loans and leases to companies**				
	Note	**Total 2016**		**In RON**		**In FCY**			**In RON**		**In FCY**	
At amortized cost			***Total Retail***	**< 5 years**	**> 5 years**	**< 5 years**	**> 5 years**	***Total Companies***	**< 5 years**	**> 5 years**	**< 5 years**	**> 5 years**
Grade 1 Low risk		**24,682,722**	***13,588,443***	3,478,749	6,592,181	140,950	3,376,563	***11,094,279***	7,297,847	1,802,224	1,204,606	789,602
Grade 2-3 Moderate risk		**1,296,501**	***759,593***	255,393	210,600	23,665	269,935	***536,908***	280,353	37,681	200,130	18,744
Grade 4-6 Medium risk		**603,385**	***153,715***	185	40,855	-	112,675	***449,670***	213,675	118,267	69,920	47,808
Grade 7 High risk		**904,686**	***202,866***	27,429	55,180	7,712	112,545	***701,820***	402,892	51,247	201,978	45,703
Grade 8 Impaired		**1,990,616**	***560,195***	131,266	111,537	35,064	282,328	***1,430,421***	963,469	103,575	335,067	28,310
Gross value	**21, 22**	**29,477,910**	**15,264,812**	**3,893,022**	**7,010,353**	**207,391**	**4,154,046**	**14,213,098**	**9,158,236**	**2,112,994**	**2,011,701**	**930,167**

Gross values, neither past due nor impaired	**Total 2016**	**Loans and leases to retail customers**					**Loans and leases to companies**				
			In RON		**In FCY**			**In RON**		**In FCY**	
		Total Retail	**< 5 years**	**> 5 years**	**< 5 years**	**> 5 years**	***Total Companies***	**< 5 years**	**> 5 years**	**< 5 years**	**> 5 years**
Grade 1 Low risk	**23,687,783**	***12,941,658***	3,350,675	6,330,771	134,366	3,125,846	***10,746,125***	7,073,712	1,758,021	1,141,989	772,403
Grade 2-3 Moderate risk	**612,131**	***293,841***	135,765	57,719	12,713	87,644	***318,290***	166,856	10,548	138,456	2,430
Grade 4-6 Medium risk	**242,403**	***28,480***	-	7,870	-	20,610	***213,923***	42,211	88,491	52,413	30,808
Total	**24,542,317**	**13,263,979**	**3,486,440**	**6,396,360**	**147,079**	**3,234,100**	**11,278,338**	**7,282,779**	**1,857,060**	**1,332,858**	**805,641**

4. Financial risk management (*continued*)

b) Credit risk *(continued)*

(ii) Credit risk exposure (continued)

Gross values on outstanding, of loans and advances and leases past due but not impaired	Total 2016	Loans and leases to retail customers					Loans and leases to companies				
			In RON		In FCY			In RON		In FCY	
		Total Retail	< 5 years	> 5 years	< 5 years	> 5 years	*Total Companies*	< 5 years	> 5 years	< 5 years	> 5 years
1-15 days	**1,094,433**	***757,891***	155,824	294,932	9,103	298,032	***336,542***	188,751	51,656	77,637	18,498
15-30 days	**314,455**	***210,243***	39,222	81,433	3,782	85,806	***104,212***	58,515	8,255	31,717	5,725
30-60 days	**292,884**	***202,110***	36,294	59,382	2,961	103,473	***90,774***	62,631	10,997	8,956	8,190
60-90 days	**88,680**	***50,462***	16,363	11,505	1,690	20,904	***38,218***	27,980	3,159	5,980	1,099
Total	**1,790,452**	**1,220,706**	**247,703**	**447,252**	**17,536**	**508,215**	**569,746**	**337,877**	**74,067**	**124,290**	**33,512**

4. Financial risk management (*continued*)

b) Credit risk *(continued)*

(ii) Credit risk exposure (continued)

Gross value of loans and receivables impaired	Total 2016	Loans and leases to retail customers					Loans and leases to companies				
			In RON		In FCY			In RON		In FCY	
		Total Retail	< 5 years	> 5 years	< 5 years	> 5 years	*Total Companies*	< 5 years	> 5 years	< 5 years	> 5 years
Grade 4-6 Medium risk	**249,839**	***17,066***	184	24	-	16,858	***232,773***	171,219	27,045	17,508	17,001
Grade 7 High risk	**904,686**	***202,866***	27,429	55,180	7,712	112,545	***701,820***	402,892	51,247	201,978	45,703
Grade 8 Impaired	**1,990,616**	***560,195***	131,266	111,537	35,064	282,328	***1,430,421***	963,469	103,575	335,067	28,310
Total	**3,145,141**	**780,127**	**158,879**	**166,741**	**42,776**	**411,731**	**2,365,014**	**1,537,580**	**181,867**	**554,553**	**91,014**

Impairment allowances	Note	Total 2017	Loans and leases to retail customers					Loans and leases to companies				
				In RON		In FCY			In RON		In FCY	
			Total Retail	< 5 years	> 5 years	< 5 years	> 5 years	*Total Companies*	< 5 years	> 5 years	< 5 years	> 5 years
Individual		(1,318,951)	(109,209)	(10,732)	(33,710)	(4,113)	(60,654)	(1,209,742)	(795,562)	(75,887)	(315,854)	(22,439)
Collective		(924,914)	(627,489)	(150,817)	(178,481)	(9,363)	(288,828)	(297,425)	(179,587)	(43,965)	(49,449)	(24,424)
Total impairment allowances	**21, 22**	**(2,243,865)**	**(736,698)**	**(161,549)**	**(212,191)**	**(13,476)**	**(349,482)**	**(1,507,167)**	**(975,149)**	**(119,852)**	**(365,303)**	**(46,863)**

4. Financial risk management (*continued*)

b) Credit risk *(continued)*

(ii) Credit risk exposure (continued)

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

At amortized cost	Total 2017	Loans and leases to retail customers					Loans and leases to companies				
			In RON		In FCY			In RON		In FCY	
		Total Retail	< 5 years	> 5 years	< 5 years	> 5 years	*Total Companies*	< 5 years	> 5 years	< 5 years	> 5 years
Grade 1 Low risk	28,041,962	15,210,290	3,986,577	7,961,740	136,580	3,125,393	12,831,672	8,161,279	2,206,285	1,291,680	1,172,428
Grade 2-3 Moderate risk	799,530	650,397	140,908	265,513	8,456	235,520	149,133	93,892	32,172	10,638	12,431
Grade 4-6 Medium risk	516,562	90,163	127	36,296	6	53,734	426,399	258,732	94,284	30,194	43,189
Grade 7 High risk	910,082	185,259	18,185	44,669	10,939	111,466	724,823	402,990	134,447	133,492	53,894
Grade 8 Depreciate	1,424,700	553,219	102,364	118,422	19,822	312,611	871,481	628,039	67,557	151,330	24,555
Gross value	**31,692,836**	**16,689,328**	**4,248,161**	**8,426,640**	**175,803**	**3,838,724**	**15,003,508**	**9,544,932**	**2,534,745**	**1,617,334**	**1,306,497**

Gross values, neither past due nor impaired	Total 2017	Loans and leases to retail customers					Loans and leases to companies				
			In RON		In FCY			In RON		In FCY	
		Total Retail	< 5 years	> 5 years	< 5 years	> 5 years	*Total Companies*	< 5 years	> 5 years	< 5 years	> 5 years
Grade 1 Low risk	26,950,737	14,423,237	3,831,616	7,599,899	127,023	2,864,699	12,527,500	7,979,632	2,151,587	1,237,836	1,158,445
Grade 2-3 Moderate risk	224,268	194,752	39,280	82,435	1,638	71,399	29,516	20,563	6,116	1,556	1,281
Grade 4-6 Medium risk	260,692	2,417	-	36	6	2,375	258,275	102,909	89,008	25,527	40,831
Total	**27,435,697**	**14,620,406**	**3,870,896**	**7,682,370**	**128,667**	**2,938,473**	**12,815,291**	**8,103,104**	**2,246,711**	**1,264,919**	**1,200,557**

4. Financial risk management (*continued*)

b) Credit risk *(continued)*

(ii) Credit risk exposure (continued)

Gross values on outstanding, of loans and advances and leases past due but not impaired	Total 2017	Loans and leases to retail customers					Loans and leases to companies				
		Total Retail	In RON		In FCY		*Total Companies*	In RON		In FCY	
			< 5 years	> 5 years	< 5 years	> 5 years		< 5 years	> 5 years	< 5 years	> 5 years
1-15 days	1,164,886	851,876	163,340	386,571	10,506	291,459	313,010	186,126	55,969	56,220	14,695
15-30 days	280,795	244,741	47,719	106,394	2,526	88,102	36,054	20,964	9,336	2,537	3,217
30-60 days	245,057	188,792	32,349	73,105	2,607	80,731	56,265	36,235	10,979	3,228	5,823
60-90 days	60,760	37,551	13,181	13,347	736	10,287	23,209	16,402	4,470	941	1,396
Total	**1,751,498**	**1,322,960**	**256,589**	**579,417**	**16,375**	**470,579**	**428,538**	**259,727**	**80,754**	**62,926**	**25,131**

Gross value of loans and receivables with specific adjustments (individual)	Total 2017	Loans and leases to retail customers					Loans and leases to companies				
		Total Retail	In RON		In FCY		*Total Companies*	In RON		In FCY	
			< 5 years	> 5 years	< 5 years	> 5 years		< 5 years	> 5 years	< 5 years	> 5 years
Grade 4-6 Medium risk	170,859	7,484	127	1,762	-	5,595	163,375	151,072	5,276	4,667	2,360
Grade 7 High risk	910,082	185,259	18,185	44,669	10,939	111,466	724,823	402,990	134,447	133,492	53,894
Grade 8 Impaired	1,424,700	553,219	102,364	118,422	19,822	312,611	871,481	628,039	67,557	151,330	24,555
Total	**2,505,641**	**745,962**	**120,676**	**164,853**	**30,761**	**429,672**	**1,759,679**	**1,182,101**	**207,280**	**289,489**	**80,809**

4. Financial risk management (*continued*)

b) Credit risk *(continued)*

(ii) Credit risk exposure (continued)

Impairment allowances	Total 2017	Loans and leases to retail customers					Loans and leases to companies				
		Total Retail	In RON		In FCY		*Total Companies*	In RON		In FCY	
			< 5 years	> 5 years	< 5 years	> 5 years		< 5 years	> 5 years	< 5 years	> 5 years
Individual	(997,588)	(102,342)	(7,884)	(37,987)	(2,989)	(53,482)	(895,246)	(600,938)	(107,987)	(154,466)	(31,855)
Collective	(781,209)	(468,608)	(135,973)	(107,289)	(7,816)	(217,530)	(312,601)	(212,556)	(41,395)	(30,968)	(27,682)
Total impairment allowances	**(1,778,797)**	**(570,950)**	**(143,857)**	**(145,276)**	**(10,805)**	**(271,012)**	**(1,207,847)**	**(813,494)**	**(149,382)**	**(185,434)**	**(59,537)**

The exposures to credit risk for loans and advances to customers **at Bank level, as at 31 December 2016** are presented below, at individual level:

At amortized cost	Total 2016	Loans and leases to retail customers					Loans and leases to companies				
		Total Retail	In RON		In FCY		*Total Companies*	In RON		In FCY	
			< 5 years	> 5 years	< 5 years	> 5 years		< 5 years	> 5 years	< 5 years	> 5 years
Grade 1 Low risk	**25,183,763**	***13,578,799***	3,469,065	6,592,181	140,989	3,376,564	***11,604,964***	7,352,018	2,016,029	1,273,068	963,849
Grade 2-3 Moderate risk	**805,011**	***616,966***	123,873	210,600	12,558	269,935	***188,045***	116,300	35,722	17,599	18,424
Grade 4-6 Medium risk	**603,588**	***153,715***	185	40,855	-	112,675	***449,873***	213,675	118,267	70,122	47,809
Grade 7 High risk	**894,641**	***202,833***	27,429	55,180	7,679	112,545	***691,808***	397,949	51,247	196,909	45,703
Grade 8 Impaired	**1,892,724**	***534,090***	107,458	111,537	32,769	282,326	***1,358,634***	945,532	103,575	281,217	28,310
Gross value	**29,379,727**	**15,086,403**	**3,728,010**	**7,010,353**	**193,995**	**4,154,045**	**14,293,324**	**9,025,474**	**2,324,840**	**1,838,915**	**1,104,095**

4. Financial risk management (*continued*)

b) Credit risk *(continued)*

(ii) Credit risk exposure (continued)

Gross values, neither past due nor impaired	Total 2016	Loans and leases to retail customers					Loans and leases to companies				
		Total Retail	In RON		In FCY		*Total Companies*	In RON		In FCY	
			< 5 years	> 5 years	< 5 years	> 5 years		< 5 years	> 5 years	< 5 years	> 5 years
Grade 1 Low risk	**24,188,824**	***12,932,009***	3,340,988	6,330,771	134,404	3,125,846	***11,256,815***	7,127,886	1,971,826	1,210,452	946,651
Grade 2-3 Moderate risk	**230,113**	***182,678***	35,228	57,719	2,087	87,644	***47,435***	34,038	8,841	2,369	2,187
Grade 4-6 Medium risk	**242,619**	***28,480***	-	7,870	-	20,610	***214,139***	42,211	88,491	52,629	30,808
Total	**24,661,556**	**13,143,167**	**3,376,216**	**6,396,360**	**136,491**	**3,234,100**	**11,518,389**	**7,204,135**	**2,069,158**	**1,265,450**	**979,646**

Gross values on outstanding, of loans and advances and leases past due but not impaired	Total 2016	Loans and leases to retail customers					Loans and leases to companies				
		Total Retail	In RON		In FCY		*Total Companies*	In RON		In FCY	
			< 5 years	> 5 years	< 5 years	> 5 years		< 5 years	> 5 years	< 5 years	> 5 years
1-15 days	**1,049,776**	***737,524***	135,877	294,932	8,683	298,032	***312,252***	180,979	51,404	61,448	18,421
15-30 days	**267,172**	***210,093***	39,133	81,433	3,721	85,806	***57,079***	38,154	8,255	4,945	5,725
30-60 days	**281,005**	***195,685***	29,868	59,382	2,962	103,473	***85,320***	60,109	10,997	6,024	8,190
60-90 days	**83,026**	***45,943***	11,844	11,505	1,690	20,904	***37,083***	27,397	3,159	5,428	1,099
Total	**1,680,979**	**1,189,245**	**216,722**	**447,252**	**17,056**	**508,215**	**491,734**	**306,639**	**73,815**	**77,845**	**33,435**

4. Financial risk management (*continued*)

b) Credit risk *(continued)*

(ii) Credit risk exposure (continued)

Gross value of loans and receivables with specific adjustments (individual)	Total 2016	Loans and leases to retail customers					Loans and leases to companies				
			In RON		In FCY			In RON		In FCY	
		Total Retail	< 5 years	> 5 years	< 5 years	> 5 years	*Total Companies*	< 5 years	> 5 years	< 5 years	> 5 years
Grade 4-6 Medium risk	**249,826**	***17,067***	185	24	-	16,858	***232,759***	171,219	27,045	17,494	17,001
Grade 7 High risk	**894,641**	***202,833***	27,429	55,180	7,679	112,545	***691,808***	397,949	51,247	196,909	45,703
Grade 8 Impaired	**1,892,725**	***534,091***	107,458	111,537	32,769	282,327	***1,358,634***	945,532	103,575	281,217	28,310
Total	**3,037,192**	**753,991**	**135,072**	**166,741**	**40,448**	**411,730**	**2,283,201**	**1,514,700**	**181,867**	**495,620**	**91,014**

Impairment allowances	Total 2016	Loans and leases to retail customers					Loans and leases to companies				
			In RON		In FCY			In RON		In FCY	
		Total Retail	< 5 years	> 5 years	< 5 years	> 5 years	*Total Companies*	< 5 years	> 5 years	< 5 years	> 5 years
Individual	**(1,278,978)**	***(104,824)***	(6,359)	(33,710)	(4,101)	(60,654)	***(1,174,154)***	(801,091)	(61,579)	(289,045)	(22,439)
Collective	**(890,773)**	***(607,915)***	(131,749)	(178,053)	(9,946)	(288,167)	***(282,858)***	(179,554)	(43,176)	(36,116)	(24,012)
Total impairment allowances	**(2,169,751)**	**(712,739)**	**(138,108)**	**(211,763)**	**(14,047)**	**(348,821)**	**(1,457,012)**	**(980,645)**	**(104,755)**	**(325,161)**	**(46,451)**

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

The outstanding loans of the Group classified according to the above definition are in amount of RON 1,921,499 thousand (2016: RON 2,100,817 thousand) and those of the Bank amount to RON 1,883,237 thousand (2016: RON 2,065,949 thousand).

All placements with banks and all investments securities are neither past due nor impaired as at 31 December 2017 and 31 December 2016.

4. Financial risk management (*continued*)

b) Credit risk *(continued)*

(ii) Credit risk exposure (continued)

As at 31 December 2017, the Group holds cash and cash equivalents with the Central Bank of Romania in amount of RON 6,637,725 thousand, whereas the Bank holds cash and cash equivalents of RON 6,637,692 thousand. Placements with banks have ratings between AA and BB+, according to the ratings issued by Standard & Poor's and Fitch, if available. As concerns the Group's and the Bank's placements with credit institutions that are not rated by Standard & Poor's or Fitch, the Standard & Poor's sovereign rating was used (note 19).

As at 31 December 2017, financial assets available-for-sale include treasury bills and bonds issued by the Government of Romania, with Standard & Poor's rating BBB-, bonds issued by municipalities with rating BBB- and BB+, bonds issued by other financial institutions with rating A- and BBB and bonds issued by other non-financial institutions with rating BB(Note 23).

Individually impaired loans and securities

Individually impaired loans and securities are loans and securities with respect to which the Group and the Bank consider that difficulties may occur in collecting the principal and interest due according to the contractual terms of the loan / securities agreement.

Past due but not individually impaired loans

Loans with respect to which the interest or principal payments are past due, but the Group and the Bank believe that an individual impairment is not appropriate considering the value of the security/collateral available and/or the stage of collection of the amounts owed to the Group and the Bank.

Impairment allowances

The Group and the Bank determine an allowance for impairment losses that represents an estimate of the incurred losses on the loan portfolio. The main components of this allowance are represented by an individual loan loss component that relates to individually significant exposures, and a collective loan loss component established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans that may be subject to individual impairment.
As at 31 December 2017, the Group and the Bank operated changes regarding the calculation methodology for the collective impairment allowances: adjustment of the methodology for the calculation of loan impairments related to clients eligible for protection under Law. no. 77 (Law on Datum solutum), in order to integrate behavioral, economic and legislative changes; re-segmentation of the loan portfolio, in order to show the realignment of business lines.

As regard to the amendments generated by the Constitutional Court's Decision on Debt Discharge Law, this has led to a better identification of the clients which might follow this behavior, diminishing accordingly the level of the collective impairment adjustments.

4. Financial risk management (*continued*)

b) Credit risk *(continued)*

(ii) Credit risk exposure (continued)

Write-off policy

Based on a specific analysis, the Group and the Bank may decide to derecognize a depreciated asset either through write-off or through off-balance registration. The analysis of financial assets subject to write-off is performed periodically with respect to assets which exceeded the recovery horizon and/or are fully provisioned - based on the assessment of significant changes affecting the financial performance of the borrower/issuer, changes causing the impossibility to pay the obligation, or changes resulting in insufficient amounts to cover the whole exposure after guarantee enforcement.

Collateral policy

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

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

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

	Group		**Bank**	
In RON thousand	**2017**	**2016**	**2017**	**2016**
Collaterals related to loans with moderate, medium and high risk and impaired loans				
Property	3,527,998	3,920,382	3,512,288	3,903,283
Security interests in movable property	412,365	573,497	399,468	573,088
Other collateral	92,008	178,676	89,231	175,668
	4,032,371	**4,672,555**	**4,000,987**	**4,652,039**
Collaterals related to loans with low risk				
Property	23,965,037	21,640,672	23,969,073	21,669,526
Security interest over real property	2,259,073	2,354,718	2,381,928	2,489,465
Other security interests	2,222,160	1,984,820	2,242,142	1,985,359
	28,446,270	**25,980,210**	**28,593,143**	**26,144,350**
Total	**32,478,641**	**30,652,765**	**32,594,130**	**30,796,389**

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

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

4. Financial risk management (*continued*)

b) Credit risk *(continued)*

(ii) Credit risk exposure (continued)

The financial effect of the Group collateral as at 31 December 2017 and 31 December 2016 is the following:

	2017				**2016**			
	Retail		**Companies**		**Retail**		**Companies**	
In RON thousand	**Under-collateralization**	**Over-collateralization**	**Under-collateralization**	**Over-collateralization**	**Under-collateralization**	**Over-collateralization**	**Under-collateralization**	**Over-collateralization**
Gross exposures, neither past due nor impaired								
Gross exposure	5,412,632	9,406,696	7,549,183	5,224,103	5,059,044	8,204,935	5,901,504	5,376,834
Collateral	1,093,805	15,660,753	1,940,165	9,184,597	1,152,453	13,546,509	1,461,410	9,283,625
Exposures past due but not impaired								
Gross exposure	556,978	799,913	319,595	212,005	555,397	665,309	268,967	300,779
Collateral	201,243	1,398,847	64,741	421,708	220,647	1,159,635	47,386	565,452
Exposures with specific adjustments								
Gross exposure	485,858	301,993	1,001,735	849,962	435,170	344,957	1,351,611	1,013,403
Collateral	211,184	552,985	260,094	1,488,519	176,115	629,038	570,041	1,840,454

The financial effect of the Bank collateral as at 31 December 2017 and 31 December 2016 is the following:

	2017				**2016**			
	Retail		**Companies**		**Retail**		**Companies**	
In RON thousand	**Under-collateralization**	**Over-collateralization**	**Under-collateralization**	**Over-collateralization**	**Under-collateralization**	**Over-collateralization**	**Under-collateralization**	**Over-collateralization**
Gross exposures, neither past due nor impaired								
Gross exposure	5,216,769	9,403,637	7,516,431	5,298,8960	4,945,130	8,198,037	6,049,333	5,469,056
Collateral	1,087,367	15,651,901	1,935,970	9,327,387	1,151,269	13,520,859	1,494,949	9,429,468
Exposures past due but not impaired								
Gross exposure	523,047	799,913	216,700	211,838	524,423	664,822	190,985	300,749
Collateral	201,243	1,398,847	64,581	421,301	220,647	1,158,674	47,240	565,152
Exposures with specific adjustments								
Gross exposure	444,824	301,138	910,825	848,854	409,882	344,109	1,271,311	1,011,890
Collateral	211,184	550,291	256,927	1,484,130	176,115	627,079	569,619	1,835,318

4. Financial risk management (*continued*)

b) Credit risk *(continued)*

(ii) Credit risk exposure (continued)

Exposure representing credit risk

The exposure representing credit risk refers to the following balance-sheet and off balance-sheet items:

- Cash with Central Banks and Deposits with banks;
- Financial assets held-to-maturity;
- Loans and receivables;
- Contingent liabilities representing credit risk (irrevocable financial guarantees and uncommitted irrevocable loan commitments).

The tables below show the reconciliation between the gross carrying amount and the net carrying amount of the individual components, of the risk exposure, consolidated as at 31 December 2017 and 31 December 2016:

		Group					
In RON thousand		**2017**			**2016**		
Assets	Notes	**Gross carrying amount**	**Provisions**	**Carrying amount**	**Gross carrying amount**	**Provisions**	**Carrying amount**
Cash and cash equivalents at the National Bank	18	5,351,174	-	5,351,174	4,294,163	-	4,294,163
Placements with banks	19	5,348,074	-	5,348,074	2,785,505	-	2,785,505
Loans and advances to customers	21	31,280,801	1,817,169	29,463,632	28,899,463	2,189,061	26,710,402
Financial leasing receivables	22	839,852	54,522	785,330	578,447	54,804	523,643
Investment securities, held-to-maturity - debt securities	23	-	-	-	20,691	-	20,691
Total on-balance sheet		**42,819,901**	**1,871,691**	**40,948,210**	**36,578,269**	**2,243,865**	**34,334,404**
Irrevocable commitments given		129,975	46	129,929	153,867	103	153,764
Irrevocable financial guarantees given		2,365,310	62,857	2,302,453	1,945,444	44,425	1,901,019
Total off-balance sheet		***2,495,285***	***62,903***	***2,432,382***	***2,099,311***	***44,528***	***2,054,783***
Total on and off-balance sheet		**45,315,186**	**1,934,594**	**43,380,592**	**38,677,580**	**2,288,393**	**36,389,187**

4. Financial risk management (*continued*)

b) Credit risk *(continued)*

(ii) Credit risk exposure (continued)

The tables below show the reconciliation between the Gross carrying amount and the net book value of the individual components, of the risk exposure, separate as at 31 December 2017 and 31 December 2016:

		Bank					
In RON thousand		**2017**			**2016**		
Assets	Notes	**Gross carrying amount**	**Provisions**	**Carrying amount**	**Gross carrying amount**	**Provisions**	**Carrying amount**
Cash and cash equivalents at the National Bank	18	5,351,174	-	5,351,174	4,294,163	-	4,294,163
Placements with banks	19	5,302,292	-	5,302,292	2,746,582	-	2,746,582
Loans and advances to customers	21	31,692,836	1,778,797	29,914,039	29,379,727	2,169,751	27,209,976
Total on-balance sheet		**42,346,302**	**1,778,797**	**40,567,505**	**36,420,472**	**2,169,751**	**34,250,721**
Irrevocable commitments given		95,650	46	95,604	120,762	103	120,659
Irrevocable financial guarantees given		2,368,080	62,861	2,305,219	1,953,257	44,436	1,908,821
Total off-balance sheet		***2,463,730***	***62,907***	***2,400,823***	***2,074,019***	***44,539***	***2,029,480***
Total on and off-balance sheet		**44,810,032**	**1,841,704**	**42,968,328**	**38,494,491**	**2,214,290**	**36,280,201**

Exposure to high-risk Eurozone countries

The economy in the Euro Area (the main economic partner of Romania) improved in the last trimesters, being supported by the improvement of the global financial climate and the low levels of the actual cost of finance (given the unprecedented loose monetary policy of the European Central Bank).

The economy in the region advanced by 2.5% YoY in 2017 (the best dynamics since 2007), according to the preliminary assumptions of Eurostat. The consolidation of a positive investment climate supported by the export growth, the acceleration of domestic consumption and the low cost of financing.

Moreover, the evolution of the private consumption (the main component of the GDP) above the expected rate in the recent period was due to the improvement of the labor market (unemployment rate decreasing to the pre-crisis levels), the re-launch of the credit activity and the higher prices of real estate and financial assets. Last but not least, public consumption increased in 2017, this evolution being determined also by the low cost of financing.

4. Financial risk management (*continued*)

b) Credit risk *(continued)*

Exposure to high-risk Eurozone countries (continued)
The financial side of the economy is marked by the acceleration of the annual average inflation rate from 0.2% in 2016 to 1.5% in 2017, this evolution being determined mainly by the dynamics of volatile components.
The maintenance of the inflation rate below the targeted level (of 2% YoY) has determined the European Central Bank to preserve a loose monetary policy until the autumn of 2018.

c) Liquidity risk

Liquidity risk represents the current or future risk that the profit and capital may be negatively affected as a result of the incapacity to fulfill its commitments or to repay its debts as they become due.

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

The purpose of managing the liquidity risk is to obtain the expected yields for the assets, given a suitable liquidity management that is consciously assumed and it is addapted to the internal and external market conditions, that supports the institution development within the current legal framework.

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

The Group and the Bank have access to a diverse funding base. Funds are raised by using a broad range of instruments, including deposits from customers or from banks, loans from development institutions and financial institutions and share capital. Access to diverse funding sources improves the flexibility to attract funds, limiting the dependence on one type of financing and on one type of partner and leading to an overall decrease of financing costs. The Group and the Bank try to maintain a balance between continuity and flexibility in attracting funds, by signing financing contracts with different maturities and in different currencies. The Group and the Bank continually assess liquidity risk by identifying and monitoring changes in the financing contracts, and by diversifying the funding sources.

The operative management of liquidity occurs also on an intraday basis, so as to ensure the execution of all settlements / payments of the bank carried out in its own name or on behalf of its customers, in RON or FCY, on accounts or in cash, within the internal, legal and mandatory limits.

The Assets and Liabilities Management Committee of the Bank is responsible with the periodic review of liquidity indicators and with the establishment of corrective measures regarding balance sheet figures, so as to eliminate unacceptable deviations in terms of liquidity risk.
Crisis simulation scenarios have been elaborated by considering various intensity levels, various probabilities and different periods of occurrence. Their purpose is to identify / assess potential losses, the potential impact of events or the factors that may generate a liquidity crisis. Additionally, they offer information regarding the impact of liquidity risk determinants on the Bank’s capacity to provide liquidity to its customers and to maintain adequate liquidity levels.

Notes to the Consolidated and Separate Financial Statements

4. Financial risk management (*continued*)

c) Liquidity risk *(continued)*

The assets and liabilities of the Group at 31 December 2017, analyzed based on the period remaining until the contractual maturity, on models reflecting the liquidity buckets and conventional assumptions concerning certain balance sheet items are the following:

Group - 31 December 2017 - RON thousand	Carrying amount	Gross value (inflow /outflow)	Up to 3 months	3-6 months	6-12 months	1-3 years	3 - 5 years	Over 5 years	Without maturity
Financial liabilities									
Deposits from banks	127,946	(127,949)	(127,949)	-	-	-	-	-	-
Deposits from customers	48,932,195	(49,329,651)	(27,948,170)	(4,807,571)	(4,450,120)	(9,997,792)	(1,640,962)	(485,036)	-
Loans from banks and other financial institutions	1,487,022	(1,531,447)	(306,070)	(16,759)	(203,397)	(302,170)	(272,285)	(430,766)	-
Subordinated liabilities and issued bonds	414,578	(533,579)	(3,493)	(9,242)	(108,344)	(88,532)	(37,151)	(286,817)	-
Held for trading financial liabilities	11,906	(11,906)	(3,338)	(83)	(8,432)	-	-	(53)	-
Other financial liabilities	1,184,210	(1,184,210)	(1,183,991)	(164)	(55)	-	-	-	-
Total financial liabilities	**52,157,857**	**(52,718,742)**	**(29,573,011)**	**(4,833,819)**	**(4,770,348)**	**(10,388,494)**	**(1,950,398)**	**(1,202,672)**	**-**
Financial assets									
Cash and cash equivalents with the National Bank	6,637,725	6,637,725	6,637,725	-	-	-	-	-	-
Placements with banks	5,348,074	5,379,578	4,986,097	84,252	75,909	138,160	64,841	30,319	-
Financial assets at fair value through profit or loss	264,996	265,096	137,615	8	24	618	-	-	126,831
Derivatives	9,854	9,854	1,204	3	8,523	-	-	124	-
Loans and advances to customers	29,463,632	40,525,798	3,533,258	2,660,018	5,059,322	8,610,410	5,008,139	15,654,651	-
Financial leasing receivables	785,330	916,045	152,036	74,896	148,354	406,797	126,693	7,269	-
Financial assets available-for-sale	15,821,300	17,003,160	13,491,628	279,131	247,358	1,588,500	663,828	572,571	160,144
Other financial assets	234,317	234,317	234,317	-	-	-	-	-	-
Total financial assets	**58,565,228**	**70,971,573**	**29,173,880**	**3,098,308**	**5,539,490**	**10,744,485**	**5,863,501**	**16,264,934**	**286,975**
Net balance sheet position		**18,252,831**	**(399,131)**	**(1,735,511)**	**769,142**	**355,991**	**3,913,103**	**15,062,262**	**286,975**

4. Financial risk management (*continued*)

c) Liquidity risk *(continued)*

Group - 31 December 2017 - RON thousand	Carrying amount	Gross value (inflow /outflow)	Up to 3 months	3-6 months	6-12 months	1-3 years	3 - 5 years	Over 5 years	Without maturity
31 December 2017									
Off-balance sheet									
Irrevocable commitments given	129,929	129,975	4,969	7,237	50,483	25,865	17,665	23,756	-
Irrevocable financial guarantees given	2,302,453	2,365,310	455,934	285,547	284,122	1,242,985	76,986	19,736	-
Gross value of swap and forward contracts									
- Deliverable amounts	(766,749)	(766,749)	(470,515)	(15,301)	(226,661)	-	-	(54,272)	-
- Receivable amounts	765,060	765,060	468,786	15,341	226,661	-	-	54,272	-
Net position of derivatives	(1,689)	(1,689)	(1,729)	40	-	-	-	-	-
Total off-balance sheet	**2,430,693**	**2,493,596**	**459,174**	**292,824**	**334,605**	**1,268,850**	**94,651**	**43,492**	**-**
Total net on- and off-balance sheet position		**15,759,235**	**(858,305)**	**(2,028,335)**	**434,537**	**(912,859)**	**3,818,452**	**15,018,770**	**286,975**

The assets and liabilities of the Group at 31 December 2016, analyzed based on the period remaining until the contractual maturity, on models reflecting the customer's historic behavior typologies and on conventional assumptions concerning certain balance sheet items are the following:

Group - 31 December 2016 - RON thousand	Carrying amount	Gross value (inflow /outflow)	Up to 3 months	3-6 months	6-12 months	1-3 years	3 - 5 years	Over 5 years	Without maturity
Financial liabilities									
Deposits from banks	247,268	(247,277)	(247,277)	-	-	-	-	-	-
Deposits from customers	41,681,475	(41,740,039)	(22,984,897)	(4,649,711)	(4,085,764)	(8,323,186)	(1,276,428)	(420,053)	-
Loans from banks and other financial institutions	2,304,911	(2,328,419)	(1,527,181)	(18,026)	(51,270)	(184,890)	(158,602)	(388,450)	-
Subordinated liabilities and issued bonds	424,111	(574,366)	(4,004)	(9,582)	(13,865)	(141,144)	(85,909)	(319,862)	-
Held for trading financial liabilities	10,947	(10,947)	(4,938)	(1,879)	-	(4,130)	-	-	-
Other financial liabilities	459,028	(459,129)	(456,835)	(484)	(335)	(1,093)	(382)	-	-
Total financial liabilities	**45,127,740**	**(45,360,177)**	**(25,225,132)**	**(4,679,682)**	**(4,151,234)**	**(8,654,443)**	**(1,521,321)**	**(1,128,365)**	**-**

4. Financial risk management (*continued*)

c) Liquidity risk *(continued)*

Group - 31 December 2016 - RON thousand	**Carrying amount**	**Gross value (inflow /outflow)**	**Up to 3 months**	**3-6 months**	**6-12 months**	**1-3 years**	**3 - 5 years**	**Over 5 years**	**No maturity**
Financial assets									
Cash and cash equivalents with the National Bank	5,293,660	5,293,660	5,293,660	-	-	-	-	-	-
Placements with banks	2,785,505	2,825,809	2,400,778	104,313	71,120	141,648	76,525	31,425	-
Financial assets at fair value through profit or loss	155,609	155,609	78,850	-	-	-	-	-	76,759
Derivatives	7,911	7,911	3,149	-	-	4,762	-	-	-
Loans and advances to customers	26,710,402	36,939,106	3,943,802	2,526,543	4,653,277	7,516,364	4,526,126	13,772,994	-
Financial leasing receivables	523,643	629,557	119,589	52,133	100,851	264,519	83,882	8,583	-
Financial assets available for sale	14,993,828	16,438,766	12,356,776	228,344	208,120	1,419,952	1,025,003	1,090,144	110,427
Investment securities, held-to-maturity	20,691	22,706	1,592	1,155	303	9,136	7,807	2,713	-
Other financial assets	194,151	196,694	196,694	-	-	-	-	-	-
Total financial assets	**50,685,400**	**62,509,818**	**24,394,890**	**2,912,488**	**5,033,671**	**9,356,381**	**5,719,343**	**14,905,859**	**187,186**
Net balance sheet position		**17,149,641**	**(830,242)**	**(1,767,194)**	**882,437**	**701,938**	**4,198,022**	**13,777,494**	**187,186**
Off-balance sheet									
Irrevocable commitments given	153,764	153,867	9,550	33,078	39,251	17,571	22,235	32,182	-
Irrevocable financial guarantees given	1,901,019	1,945,444	352,745	301,548	349,243	271,040	107,320	563,548	-
Gross value of swap and forward contracts									
- Deliverable amounts	(1,219,262)	(1,219,262)	(745,802)	(249,761)	-	(223,699)	-	-	-
- Receivable amounts	1,216,652	1,216,652	744,205	248,748	-	223,699	-	-	-
Net position of derivatives	(2,610)	(2,610)	(1,597)	(1,013)	-	-	-	-	-
Total off-balance sheet	**2,052,173**	**2,096,701**	**360,698**	**333,613**	**388,494**	**288,611**	**129,555**	**595,730**	**-**
Total net on- and off-balance sheet position		**15,052,940**	**(1,190,940)**	**(2,100,807)**	**493,943**	**413,327**	**4,068,467**	**13,181,764**	**187,186**

4. Financial risk management (*continued*)

c) Liquidity risk *(continued)*

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

Bank - 31 December 2017 - RON thousand	Carrying amount	Gross value (inflow /outflow)	Up to 3 months	3-6 months	6-12 months	1-3 years	3 - 5 years	Over 5 years	Without maturity
Financial liabilities									
Deposits from banks	127,946	(127,949)	(127,949)	-	-	-	-	-	-
Deposits from customers	49,099,201	(49,157,366)	(27,810,036)	(4,802,091)	(4,422,114)	(9,997,480)	(1,640,809)	(484,836)	-
Loans from banks and other financial institutions	1,099,891	(1,125,018)	(293,414)	(6,094)	(39,464)	(178,726)	(176,554)	(430,766)	-
Subordinated liabilities and issued bonds	414,578	(533,579)	(3,493)	(9,242)	(108,344)	(88,532)	(37,151)	(286,817)	-
Held for trading financial liabilities	11,906	(11,906)	(3,338)	(83)	(8,432)	-	-	(53)	-
Other financial liabilities	1,142,938	(1,142,938)	(1,142,938)	-	-	-	-	-	-
Total financial liabilities	**51,896,460**	**(52,098,756)**	**(29,381,168)**	**(4,817,510)**	**(4,578,354)**	**(10,264,738)**	**(1,854,514)**	**(1,202,472)**	**-**
Financial assets									
Cash and cash equivalents with the National Bank	6,637,692	6,637,692	6,637,692	-	-	-	-	-	-
Placements with banks	5,302,292	5,332,885	4,954,512	81,679	63,374	138,160	64,841	30,319	-
Financial assets at fair value through profit or loss	73,281	73,281	36,641	-	-	-	-	-	36,640
Derivatives	9,854	9,854	1,204	3	8,523	-	-	124	-
Loans and advances to customers	29,914,039	40,877,803	3,573,257	2,682,136	5,140,259	8,747,538	5,049,990	15,684,623	-
Equity investments	156,631	156,631	-	-	-	-	-	-	156,631
Financial assets available-for-sale	16,032,612	17,212,626	13,614,722	278,694	247,285	1,586,833	663,351	571,714	250,027
Other financial assets	211,913	211,913	211,913	-	-	-	-	-	-
Total financial assets	**58,338,314**	**70,512,685**	**29,029,941**	**3,042,512**	**5,459,441**	**10,472,531**	**5,778,182**	**16,286,780**	**443,298**
Net balance sheet position		**18,413,929**	**(351,227)**	**(1,774,998)**	**881,087**	**207,793**	**3,923,668**	**15,084,308**	**443,298**

4. Financial risk management (*continued*)

c) Liquidity risk *(continued)*

Bank - 31 December 2017 - RON thousand	**Carrying amount**	**Gross value (inflow /outflow)**	**Up to 3 months**	**3-6 months**	**6-12 months**	**1-3 years**	**3 - 5 years**	**Over 5 years**	**Without maturity**
31 December 2017									
Off-balance sheet									
Irrevocable commitments given	95,604	95,650	4,235	4,725	50,163	22,577	-	13,950	-
Irrevocable financial guarantees given	2,305,219	2,368,080	458,321	285,547	284,161	1,243,010	77,105	19,936	-
Gross value of swap and forward contracts									
- Deliverable amounts	(766,749)	(766,749)	(470,515)	(15,301)	(226,661)	-	-	(54,272)	-
- Receivable amounts	765,060	765,060	468,786	15,341	226,661	-	-	54,272	-
Net position of derivatives	(1,689)	(1,689)	(1,729)	40	-	-	-	-	-
Total off-balance sheet	**2,399,134**	**2,462,041**	**460,827**	**290,312**	**334,324**	**1,265,587**	**77,105**	**33,886**	**-**
Total net on- and off-balance sheet position		**15,951,888**	**(812,054)**	**(2,065,310)**	**546,763**	**(1,057,794)**	**3,846,563**	**15,050,422**	**443,298**

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

The assets and liabilities of the Bank at 31 December 2016, analyzed based on the period remaining until the contractual maturity, on models reflecting the customer's historic behavior typologies and on conventional assumptions concerning certain balance sheet items are the following:

Bank - 31 December 2016 - RON thousand	**Carrying amount**	**Gross value (inflow /outflow)**	**Up to 3 months**	**3-6 months**	**6-12 months**	**1-3 years**	**3 - 5 years**	**Over 5 years**	**Without maturity**
Financial liabilities									
Deposits from banks	247,268	(247,277)	(247,277)	-	-	-	-	-	-
Deposits from customers	41,851,773	(41,910,402)	(23,133,955)	(4,649,711)	(4,089,238)	(8,340,962)	(1,276,483)	(420,053)	-
Loans from banks and other financial institutions	2,246,461	(2,268,387)	(1,520,832)	(11,460)	(40,183)	(160,651)	(151,170)	(384,091)	-
Subordinated liabilities and issued bonds	424,111	(574,366)	(4,004)	(9,582)	(13,865)	(141,144)	(85,909)	(319,862)	-
Held for trading financial liabilities	10,947	(10,947)	(4,938)	(1,879)		(4,130)			
Other financial liabilities	430,211	(430,211)	(430,211)	-	-	-	-	-	-
Total financial liabilities	**45,210,771**	**(45,441,590)**	**(25,341,217)**	**(4,672,632)**	**(4,143,286)**	**(8,646,887)**	**(1,513,562)**	**(1,124,006)**	**-**

4. Financial risk management (*continued*)

c) Liquidity risk *(continued)*

Bank - 31 December 2016 - RON thousand	Carrying amount	Gross value (inflow /outflow)	Up to 3 months	3-6 months	6-12 months	1-3 years	3 - 5 years	Over 5 years	No maturity
Financial assets									
Cash and cash equivalents with the National	5,293,635	5,293,635	5,293,635	-	-	-	-	-	-
Placements with banks	2,746,582	2,786,705	2,382,553	100,700	53,854	141,648	76,525	31,425	-
Financial assets at fair value through profit and loss	51,979	51,979	25,990	-	-	-	-	-	25,989
Derivatives	7,911	7,911	3,149	-	-	4,762	-	-	-
Loans and advances to customers	27,209,976	37,340,958	3,887,029	2,556,958	4,729,069	7,739,010	4,620,829	13,808,063	-
Equity investments	136,671	136,671	-	-	-	-	-	-	136,671
Financial assets available for sale	15,120,524	16,563,350	12,427,111	227,479	208,047	1,416,093	1,024,445	1,089,214	170,961
Other financial assets	170,153	170,153	170,153	-	-	-	-	-	-
Total financial assets	**50,737,431**	**62,351,362**	**24,189,620**	**2,885,137**	**4,990,970**	**9,301,513**	**5,721,799**	**14,928,702**	**333,621**
Net balance sheet position		**16,909,772**	**(1,151,597)**	**(1,787,495)**	**847,684**	**654,626**	**4,208,237**	**13,804,696**	**333,621**
Irrevocable commitments given	120,659	120,762	9,288	30,956	39,251	13,253	2	28,012	-
Irrevocable financial guarantees given	1,908,821	1,953,257	360,327	301,547	349,281	271,101	107,453	563,548	-
Gross value of swap and forward contracts									
- Deliverable amounts	(1,219,262)	(1,219,262)	(745,802)	(249,761)	-	(223,699)	-	-	-
- Receivable amounts	1,216,652	1,216,652	744,205	248,748	-	223,699	-	-	-
Net position of derivatives	(2,610)	(2,610)	(1,597)	(1,013)	-	-	-	-	-
Total off-balance sheet	**2,026,870**	**2,071,409**	**368,018**	**331,490**	**388,532**	**284,354**	**107,455**	**591,560**	**-**
Net position on- and off-balance sheet		**14,838,363**	**(1,519,615)**	**(2,118,985)**	**459,152**	**370,272**	**4,100,782**	**13,213,136**	**333,621**

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

4. Financial risk management (*continued*)

d) Market risk

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

d1) Interest rate risk from the banking book

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

The Group and the Bank are exposed to the interest rate risk resulting from funds raised and placed in relation to non-bank customers (interest rate risk from banking activities).

The main sources of interest rate risk are represented by the imperfect correlation between the maturity dates (for fixed interest rates) or the pricing reset dates (for variable interest rates) with respect to interest bearing assets and liabilities, the adverse changes of the yield curve (un-parallel shift of interest rate curves related to interest bearing assets and liabilities).

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

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

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

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

	Group				**Bank**			
In RON thousand	**200 basis points**	**200 basis points**	**100 basis points**	**100 basis points**	**200 basis points**	**200 basis points**	**100 basis points**	**100 basis points**
	Increase	**Decrease**	**Increase**	**Decrease**	**Increase**	**Decrease**	**Increase**	**Decrease**
As at 31 December 2017								
Average for the period	69	(69)	34	(34)	(110)	110	(55)	55
Minimum for the period	(23,748)	54	(11,874)	27	(23,748)	168	(11,874)	84
Maximum for the period	22,616	(40)	11,308	(20)	22,616	(62)	11,308	(31)
As at 31 December 2016								
Average for the period	93	(93)	46	(46)	50	(50)	25	(25)
Minimum for the period	(19,259)	57	(9,630)	29	(19,259)	166	(9,630)	83
Maximum for the period	20,631	(4)	10,315	(2)	20,631	(61)	10,310	(30)

4. Financial risk management (*continued*)

d) Market risk *(continued)*

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

In the sensitivity analysis regarding interest rate variation, the Group and the Bank have calculated the impact of resonable expected sensitivity market interest rate changes on the interest margin for the future financial periods, by taking into consideration the interest rate resetting / re-fixing date with respect to the balance sheet assets and liabilities, as follows: the Group and the Bank separated fixed interest assets and liabilities from variable interest assets and liabilities, using the following split for each category: less than 1 month, 1 – 3 months, 3 – 6 months, 6 – 12 months, 1 – 2 years, 2 - 3 years, 3 – 4 years, 4 - 5 years, 5 – 7 years, 7 - 10 years, 10 – 15 years, 15 – 20 years and over 20 years. For the variable rate assets and liabilities, the future interest cash flows were recomputed by modifying the interest rate by +/- 100 and +/-200 basis points.

Following the sensitivity analysis performed by the Group and the Bank in accordance with the methodology presented above, it can be observed that the impact of interest rate fluctuations on profit is limited in the forthcoming years. The most significant impact is noticed on the 15-20 years bucket, which gives the Group and the Bank sufficient time to adjust to the financial market conditions. The average for the period included in the previous table represents the average monthly impact of interest rate changes over the Group's and the Bank's profit (according to the methodology presented above). The minimum included in the table represents the potential impact of interest rate changes on the profit for the respective bucket, notably 6-12 months. The maximum represents the annual potential impact of interest rate changes on the profit for the respective bucket, notably 15-20 years.

The potential change of the Bank's economic value in profit and loss and equity based on the standardized method is presented in the table below:

In RON thousand	**2017**	**2016**
Own funds	5,651,402	4,853,871
Potential decline in ec value +/- 200bp		
Absolute value	111,060	71,762
Impact on own funds	1.97%	1.48%

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

In RON thousand	**2017**	**2016**
Own funds	5,881,317	5,038,961
Potential decline in ec value +/- 200bp		
Absolute value	128,706	85,727
Impact on own funds	2.19%	1.70%

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

In order to manage the risks generated by potential interest rate changes, the Bank elaborated simulation scenarios, including "stress testing" scenarios of different intensity levels and with various probabilities of occurrence.

Notes to the Consolidated and Separate Financial Statements

4. Financial risk management (*continued*)

d) Market risk *(continued)*

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

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

In RON thousand	Up to 6 months	6 - 12 months	1-3 years	3 - 5 years	Over 5 years	Non interest bearing	Total
Financial assets							
Cash and cash equivalents with the National Bank	6,637,725	-	-	-	-	-	6,637,725
Placements with banks	5,076,788	71,509	122,910	49,972	26,895	-	5,348,074
Loans and advances to customers	25,402,534	1,634,318	1,246,042	689,430	491,308	-	29,463,632
Financial leasing receivables	785,330	-	-	-	-	-	785,330
Other financial assets	-	-	-	-	-	234,317	234,317
Total financial assets	**37,902,377**	**1,705,827**	**1,368,952**	**739,402**	**518,203**	**234,317**	**42,469,078**
Financial liabilities							
Deposits from banks	127,946	-	-	-	-	-	127,946
Deposits from customers	41,399,432	7,027,766	440,785	17,369	46,843	-	48,932,195
Loans from banks and other financial institutions and other subordinated liabilities	1,845,118	-	-	-	56,482	-	1,901,600
Other financial liabilities	-	-	-	-	-	1,184,210	1,184,210
Total financial liabilities	**43,372,496**	**7,027,766**	**440,785**	**17,369**	**103,325**	**1,184,210**	**52,145,951**
Net position	**(5,470,119)**	**(5,321,939)**	**928,167**	**722,033**	**414,878**	**(949,893)**	**(9,676,873)**
Irrevocable commitments given	12,160	50,483	25,865	17,665	23,756	-	129,929
Irrevocable financial guarantees given	711,882	277,081	1,220,187	75,096	18,207	-	2,302,453
Total off-balance sheet	**724,042**	**327,564**	**1,246,052**	**92,761**	**41,963**	**-**	**2,432,382**
Net position on- and off-balance sheet	**(6,194,161)**	**(5,649,503)**	**(317,885)**	**629,272**	**372,915**	**(949,893)**	**(12,109,255)**

4. Financial risk management (*continued*)

d) Market risk (continued)

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

The table below presents the aggregated amounts of the Group's banking book at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates at 31 December 2016:

In RON thousand	Up to 6 months	6 - 12 months	1-3 years	3 - 5 years	Over 5 years	Non interest bearing	Total
Financial assets							
Cash and cash equivalents with the National Bank	5,293,660	-	-	-	-	-	**5,293,660**
Placements with banks	2,503,037	67,118	119,583	59,069	36,698	-	**2,785,505**
Loans and advances to customers	22,715,962	738,288	1,299,291	801,480	1,155,381	-	**26,710,402**
Financial leasing receivables	523,643	-	-	-	-	-	**523,643**
Investment securities, held-to-maturity	2,393	-	8,161	7,619	2,518	-	**20,691**
Other financial assets	-	-	-	-	-	194,151	**194,151**
Total financial assets	**31,038,695**	**805,406**	**1,427,035**	**868,168**	**1,194,597**	**194,151**	**35,528,052**
Financial liabilities							
Deposits from banks	247,268	-	-	-	-	-	**247,268**
Deposits from customers	34,264,591	6,603,572	752,602	21,092	39,618	-	**41,681,475**
Loans from banks and other financial institutions and other subordinated liabilities	2,645,725	-	-	-	83,297	-	**2,729,022**
Other financial liabilities	-	-	-	-	-	459,028	459,028
Total financial liabilities	**37,157,584**	**6,603,572**	**752,602**	**21,092**	**122,915**	**459,028**	**45,116,793**
Net position	**(6,118,889)**	**(5,798,166)**	**674,433**	**847,076**	**1,071,682**	**(264,877)**	**(9,588,741)**
Irrevocable commitments given	42,525	39,251	17,571	22,235	32,182	-	153,764
Irrevocable financial guarantees given	634,677	336,743	260,546	105,929	563,124	-	1,901,019
Total off-balance sheet	677,202	375,994	278,117	128,164	595,306	-	2,054,783
Net position on- and off-balance sheet	**(6,796,091)**	**(6,174,160)**	**396,316**	**718,912**	**476,376**	**(264,877)**	**(11,643,524)**

4. Financial risk management (*continued*)

d) Market risk *(continued)*

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

The table below presents the aggregated amounts of the Bank's banking book at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates at 31 December 2017:

In RON thousand	Up to 6 months	6 - 12 months	1-3 years	3 - 5 years	Over 5 years	Non interest bearing	Total
Financial assets							
Cash and cash equivalents with the National Bank	6,637,692	-	-	-	-	-	**6,637,692**
Placements with banks	5,042,674	59,841	122,910	49,972	26,895	-	**5,302,292**
Loans and advances to customers	25,964,640	1,614,300	1,182,184	661,607	491,308	-	**29,914,039**
Other financial assets	-	-	-	-	-	211,913	**211,913**
Total financial assets	**37,645,006**	**1,674,141**	**1,305,094**	**711,579**	**518,203**	**211,913**	**42,065,936**
Financial liabilities							
Deposits from banks	127,946	-	-	-	-	-	**127,946**
Deposits from customers	41,566,438	7,027,766	440,785	17,369	46,843	-	**49,099,201**
Loans from banks and other financial institutions and other subordinated liabilities	1,457,987	-	-	-	56,482	-	**1,514,469**
Other financial liabilities	-	-	-	-	-	1,142,938	**1,142,938**
Total financial liabilities	**43,152,371**	**7,027,766**	**440,785**	**17,369**	**103,325**	**1,142,938**	**51,884,554**
Net position	**(5,507,365)**	**(5,353,625)**	**864,309**	**694,210**	**414,878**	**(931,025)**	**(9,818,618)**
Irrevocable commitments given	8,914	50,163	22,577	-	13,950	-	95,604
Irrevocable financial guarantees given	714,267	277,120	1,220,212	75,213	18,407	-	2,305,219
Total off-balance sheet	**723,181**	**327,283**	**1,242,789**	**75,213**	**32,357**	**-**	**2,400,823**
Net position on- and off-balance sheet	**(6,230,546)**	**(5,680,908)**	**(378,480)**	**618,997**	**382,521**	**(931,025)**	**(12,219,441)**

4. Financial risk management (*continued*)

d) Market risk *(continued)*

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

The table below presents the aggregated amounts of the Bank's banking book at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates at 31 December 2016:

In RON thousand	Up to 6 months	6 - 12 months	1-3 years	3 - 5 years	Over 5 years	Non interest bearing	Total
Financial assets							
Cash and cash equivalents with the National Bank	5,293,635	-	-	-	-	-	**5,293,635**
Placements with banks	2,491,025	50,009	119,583	59,069	26,896	-	**2,746,582**
Loans and advances to customers	22,789,350	816,566	1,527,609	890,807	1,185,644	-	**27,209,976**
Other financial assets	-	-	-	-	-	170,153	**170,153**
Total financial assets	**30,574,010**	**866,575**	**1,647,192**	**949,876**	**1,212,540**	**170,153**	**35,420,346**
Financial liabilities							
Deposits from banks	247,268	-	-	-	-	-	**247,268**
Deposits from customers	34,413,608	6,607,027	770,419	21,180	39,539	-	**41,851,773**
Loans from banks and other financial institutions and other subordinated liabilities	2,587,275	-	-	-	83,297	-	**2,670,572**
Other financial liabilities	-	-	-	-	-	430,211	**430,211**
Total financial liabilities	**37,248,151**	**6,607,027**	**770,419**	**21,180**	**122,836**	**430,211**	**45,199,824**
Net position	**(6,674,141)**	**(5,740,452)**	**876,773**	**928,696**	**1,089,704**	**(260,058)**	**(9,779,478)**
Irrevocable commitments given	40,141	39,251	13,253	2	28,012	-	120,659
Irrevocable financial guarantees given	642,248	336,781	260,607	106,061	563,124	-	1,908,821
Total off-balance sheet	**682,389**	**376,032**	**273,860**	**106,063**	**591,136**	**-**	**2,029,480**
Net position on- and off-balance sheet	**(7,356,530)**	**(6,116,484)**	**602,913**	**822,633**	**498,568**	**(260,058)**	**(11,808,958)**

Notes to the Consolidated and Separate Financial Statements

4. Financial risk management (*continued*)

d) Market risk *(continued)*

d2) Currency risk

The Group and the Bank are exposed to currency risk through open positions generated by foreign currency transactions. The Group and the Bank manage the currency risk based on strict open position and "stop-loss" limits monitored in real time. There is also a risk that the values of net monetary assets and liabilities in foreign currency will change when translated into RON as a result of exchange rate variation.

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

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

In RON thousand	RON	EUR	USD	Other currencies	Total
Monetary assets					
Cash and cash equivalents at the National Bank	3,480,446	3,076,466	30,160	50,653	6,637,725
Placements with banks	2,282,833	1,856,437	839,395	369,409	5,348,074
Financial assets at fair value through profit or loss	50,680	478	-	-	51,158
Derivatives	9,149	705	-	-	9,854
Loans and advances to customers	23,447,123	5,554,765	80,605	381,139	29,463,632
Financial leasing receivables	358,239	423,724	3,367	-	785,330
Financial assets available-for-sale	8,506,247	6,221,619	1,025,886	-	15,753,752
Other financial assets	179,502	51,360	2,389	1,066	234,317
Total monetary assets	**38,314,219**	**17,185,554**	**1,981,802**	**802,267**	**58,283,842**
Monetary liabilities					
Deposits from banks	58,118	33,478	36,080	270	127,946
Deposits from customers	30,705,444	15,956,751	1,831,160	438,840	48,932,195
Loans from banks and other financial institutions, subordinated debt	547,727	1,196,831	157,042	-	1,901,600
Held for trading financial liabilities	11,238	668	-	-	11,906
Other financial liabilities	1,057,590	103,706	16,035	6,879	1,184,210
Total monetary liabilities	**32,380,117**	**17,291,434**	**2,040,317**	**445,989**	**52,157,857**
Net currency position	**5,934,102**	**(105,880)**	**(58,515)**	**356,278**	**6,125,985**
Gross value of swap and forward contracts					
- Deliverable amounts	(126,804)	(417,362)	(11,429)	(211,154)	(766,749)
- Receivable amounts	366,323	393,483	5,254	-	765,060
Net position of derivatives	**239,519**	**(23,879)**	**(6,175)**	**(211,154)**	**(1,689)**
Total net position, on-balance and off-balance sheet	**5,694,583**	**(82,001)**	**(52,340)**	**567,432**	**6,127,674**

4. Financial risk management (*continued*)

d) Market risk *(continued)*

d2) Currency risk (continued)

The Group's monetary assets and liabilities denominated in RON and foreign currencies at 31 December 2016 are presented below:

In RON thousand	RON	EUR	USD	Other currencies	Total
Monetary assets					
Cash and cash equivalents at the National Bank	3,450,162	1,775,644	26,042	41,812	**5,293,660**
Placements with banks	1,287,088	741,037	465,728	291,652	**2,785,505**
Financial assets at fair value through profit and loss	10,453	-	-	-	**10,453**
Derivatives	7,248	663	-	-	**7,911**
Loans and advances to customers	20,463,589	5,671,631	149,867	425,315	**26,710,402**
Financial leasing receivables	243,627	278,021	1,995	-	**523,643**
Financial assets available-for-sale	8,258,953	5,614,915	1,068,195	-	**14,942,063**
Investment securities, held-to-maturity	-	20,691	-	-	**20,691**
Other financial assets	158,475	35,241	212	223	**194,151**
Total monetary assets	**33,879,595**	**14,137,843**	**1,712,039**	**759,002**	**50,488,479**
Monetary liabilities					
Deposits from banks	56,635	89,929	100,477	227	**247,268**
Deposits from customers	27,068,174	12,719,569	1,564,623	329,109	**41,681,475**
Loans from banks and other financial institutions, subordinated debt	1,489,042	1,053,152	186,828	-	**2,729,022**
Held for trading financial liabilities	10,347	600	-	-	**10,947**
Other financial liabilities	380,622	57,979	14,014	6,413	**459,028**
Total monetary liabilities	**29,004,820**	**13,921,229**	**1,865,942**	**335,749**	**45,127,740**
Net currency position	**4,874,775**	**216,614**	**(153,903)**	**423,253**	**5,360,739**
Gross value of swap and forward contracts					
- Deliverable amounts	(322,172)	(619,302)	(45,615)	(232,173)	(1,219,262)
- Receivable amounts	666,799	439,904	109,949	-	1,216,652
Net position of derivatives	**344,627**	**(179,398)**	**64,334**	**(232,173)**	**(2,610)**
Total net position, on-balance and off-balance sheet	**4,530,148**	**396,012**	**(218,237)**	**655,426**	**5,363,349**

4. Financial risk management (*continued*)

d) Market risk *(continued)*

d2) Currency risk (continued)

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

In RON thousand	**RON**	**EUR**	**USD**	**Other currencies**	**Total**
Monetary assets					
Cash and cash equivalents at the National Bank	3,480,414	3,076,466	30,160	50,652	6,637,692
Placements with banks	2,256,841	1,837,601	839,344	368,506	5,302,292
Derivatives	9,149	705	-	-	9,854
Loans and advances to customers	23,489,922	5,962,013	80,965	381,139	29,914,039
Financial assets available-for-sale	8,707,157	6,232,589	1,025,886	-	15,965,632
Other financial assets	158,777	50,654	2,389	93	211,913
Total monetary assets	**38,102,260**	**17,160,028**	**1,978,744**	**800,390**	**58,041,422**
Monetary liabilities					
Deposits from banks	58,117	33,478	36,080	271	127,946
Deposits from customers	30,850,336	15,978,820	1,831,204	438,841	49,099,201
Loans from banks and other financial institutions, subordinated debt	314,916	1,042,871	156,682	-	1,514,469
Held for trading financial liabilities	11,238	668	-	-	11,906
Other financial liabilities	1,033,319	86,728	16,014	6,877	1,142,938
Total monetary liabilities	**32,267,926**	**17,142,565**	**2,039,980**	**445,989**	**51,896,460**
Net currency position	**5,834,334**	**17,463**	**(61,236)**	**354,401**	**6,144,962**
Gross value of swap and forward contracts					
- Deliverable amounts	(126,804)	(417,362)	(11,429)	(211,154)	(766,749)
- Receivable amounts	366,323	393,483	5,254	-	765,060
Net position of derivatives	239,519	(23,879)	(6,175)	(211,154)	(1,689)
Total net position, on-balance and off-balance sheet	**5,594,815**	**41,342**	**(55,061)**	**565,555**	**6,146,651**

4. Financial risk management (*continued*)

d) Market risk *(continued)*

d2) Currency risk (continued)

The Bank's monetary assets and liabilities denominated in RON and foreign currencies at 31 December 2016 are presented below:

In RON thousand	**RON**	**EUR**	**USD**	**Other currencies**	**Total**
Monetary assets					
Cash and cash equivalents at the National Bank	3,450,137	1,775,644	26,042	41,812	**5,293,635**
Placements with banks	1,268,376	720,826	465,728	291,652	**2,746,582**
Derivatives	7,248	663			7,911
Loans and advances to customers	20,649,103	5,984,630	150,928	425,315	**27,209,976**
Financial assets available-for-sale	8,351,000	5,649,689	1,068,195	-	15,068,884
Other financial assets	139,630	30,235	212	76	**170,153**
Total monetary assets	**33,865,494**	**14,161,687**	**1,711,105**	**758,855**	**50,497,141**
Monetary liabilities					
Deposits from banks	56,635	89,929	100,477	227	**247,268**
Deposits from customers	27,224,279	12,733,762	1,564,623	329,109	**41,851,773**
Loans from banks and other financial institutions, subordinated debt	1,486,619	997,125	186,828	-	**2,670,572**
Held for trading financial liabilities	10,347	600	-	-	10,947
Other financial liabilities	356,544	53,255	14,014	6,398	430,211
Total monetary liabilities	**29,134,424**	**13,874,671**	**1,865,942**	**335,734**	**45,210,771**
Net currency position	**4,731,070**	**287,016**	**(154,837)**	**423,121**	**5,286,370**
Gross value of swap and forward contracts					
- Deliverable amounts	(322,172)	(619,302)	(45,615)	(232,173)	(1,219,262)
- Receivable amounts	666,799	439,904	109,949	-	1,216,652
Net position of derivatives	**344,627**	**(179,398)**	**64,334**	**(232,173)**	**(2,610)**
Total net position, on-balance and off-balance sheet	**4,386,443**	**466,414**	**(219,171)**	**655,294**	**5,288,980**

By calculating and monitoring net currency positions and exchange rate fluctuations, the Bank intended to achieve a balanced portfolio in terms of FCY denominated assets and liabilities, but also a balanced FCY trading activity.

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

	Impact in the Profit and Loss Account	
In RON thousand	**2017**	**2016**
Euro increase by max. 10% (2016: increase by 20%)	(8,147)	4,909
Euro decrease by max. 10% (2016: decrease 20%)	8,147	(4,909)
USD increase by max. 10% (2016: increase 20%)	4,958	(3,120)
USD decrease by max. 10% (2016: decrease 20%)	(4,958)	3,120
Total	-	-

4. Financial risk management *(continued)*

d) Market risk *(continued)*

d3) Market risk for the trading activity

The main purpose of managing market risk is to obtain expected performance of portfolio trading, in terms of proper management of market risk inherently assumed consciously and adapted to market conditions and development of the Bank and the Group, and not least the current legislative framework.
General principles applied in order to ensure adequate management of market risks are:

- Market risk management is adapted and adjusted constantly Romanian banking market conditions and international financial and general economic context;
- The management of market risks, the bank applies clear principles regarding the suitability, maturity, diversity and degree of risk elements;
- Price risk is analyzed in the stress test the portfolio of shares and fund units held by the Bank.

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

- Financial assets at fair value through profit or loss (excluding equity instruments);
- Financial assets available for sale (excluding equity instruments).

Below we present risk exposure on a consolidated and individual at 31 December 2017 or 31 December 2016:

		Group		Bank	
In RON thousand		**2017**	**2016**	**2017**	**2016**
Assets	Notes	**Carrying amount**	**Carrying amount**	**Carrying amount**	**Carrying amount**
Financial assets ar fair value through profit or loss – derivatives and debt instruments	20	61,012	18,364	9,854	7,911
Financial assets available for sale – debt securities	23	15,753,752	14,942,063	15,965,632	15,068,884
Total on-balance sheet		**15,814,764**	**14,960,427**	**15,975,486**	**15,076,795**

The following table presents the sensitivity impact of a reasonably possible change of interest rates of +/- 1.00% and of market prices of +/- 10% in profit and loss and in equity, all other variables being held constant:

Group	**as at 31 December 2017**		**as at 31 December 2016**	
In RON thousand	**Impact in profit or loss**	**Impact in equity**	**Impact in profit or loss**	**Impact in equity**
Shares	(7,669)	-	(5,539)	-
OTC derivatives	-	(55,120)	-	(38,573)
Bonds and t-bills	-	(433,318)	-	(538,403)
Total impact	**(7,669)**	**(488,438)**	**(5,539)**	**(576,976)**

4. Financial risk management *(continued)*

d) Market risk *(continued)*

d3) Market risk for the trading activity *(continue)*

Exposure to market risk related to trading activities (continued)

Bank	**as at 31 December 2017**		**as at 31 December 2016**	
In RON thousand	**Impact in profit or loss**	**Impact in equity**	**Impact in profit or loss**	**Impact in equity**
Shares	(7,328)	-	(5,198)	-
OTC derivatives	-	(53,748)	-	(35,899)
Bonds and t-bills	-	(432,911)	-	(537,650)
Total impact	**(7,328)**	**(486,659)**	**(5,198)**	**(573,549)**

e) Taxation risk

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

The Romanian tax legislation provides for detailed and complex rules and has faced many changes in the recent years. The interpretation and practical implementation of tax legislation may vary and there is a risk that certain transactions could be construed differently by the tax authorities as compared to the Group's and the Bank's treatment.

Moreover, the conversion to IFRS involved supplementary fiscal implications for the Romanian banks, which are not fully regulated and may generate tax related risk.

The National Agency for Fiscal Administration comprises specialized organizational structures that are able to conduct the fiscal audit of all the entities operating in Romania and such audit may cover both fiscal compliance topics and other legal and regulatory matters.

It is likely that the Group and the Bank will continue to be subject to regular tax controls, as new tax regulations are issued.

In this context, a detailed analysis was performed in order to identify accounting treatment differences with fiscal impact, both in terms of current tax and deferred tax.

In 2017, the adequate legal framework was adopted for the implementation in Romania of the country-by-country reporting standards ("CbC"), which translates into the national legislation the provisions of the Council Directive (EU) 2016/881 of 25 May 2016 and follows the initiatives in Action 13 of the OECD Base Erosion and Profit Shifting Project ("BEPS"). According to these regulations, the ultimate parent companies in Romania which control a group of multinational entities ("MNE") and which obtain a total consolidated income at group level exceeding EUR 750 million, have the obligation to file CbC reporting documentation to the Romanian fiscal authorities. The Group granted particular attention to the implementation of these reporting requirements, which serve the purpose to increase the fiscal transparency of multinational groups and also represent an important step in the Romanian legislation on transfer pricing.

The enforcement of the International Financial Reporting Standards IFRS 9 as of 01.01.2018 will generate additional fiscal consequences upon the transition; therefore, in order to mitigate tax risk, the fiscal authorities need to embrace a transparent fiscal approach and to ensure efficient communication with the financial and banking sector.

4. Financial risk management *(continued)*

f) Business environment

(i) Macroeconomic dynamics and the banking sector

The Romanian economy grew by 7% year on year (YoY) in 2017 (the best dynamics since 2008), according to the preliminary assumptions of the National Institute of Statistics (NIS).

This evolution was determined by the domestic demand, influenced by the (unprecedented) relaxed policy mix in the Romanian economy and by the international context indicating global economic growth and slight optimism on the financial markets.

In terms of aggregate demand, the re-launch of productive investments can be noticed, being supported by the export boost, the acceleration of domestic consumption and the low cost of financing. Moreover, there can be noticed the acceleration of the private consumption (the main component of the GDP) in 2017, determined by the improvement of the real disposable income of the population and by the wealth effect (caused by the higher prices of real estate and financial assets).

In 2017, the public consumption had the best evolution since 2008, in the context of the fiscal and revenue policy decisions. In 2017, public expenses increased by 14% YoY reaching RON 276.1 billion (according to the Ministry of Finance), this evolution being determined by the significant acceleration of transfers (by 21.1% YoY, up to RON 130.9 billion) and of staff expenses (by 22% YoY, up to RON 69.6 billion).

On the other hand, the net foreign demand had a negative impact on the annual dynamics of the economy in 2017, since the imports increased at a faster pace as compared to the exports. Thus, the statistics of the National Bank (NBR) indicate a trade deficit acceleration by 165.6% YoY, up to EUR 4.1 billion in 2017.

In terms of aggregate supply, the primary sector had a dynamic evolution (YoY increase exceeding 20% in 2017), supported by the favorable weather conditions and the investments of the precedent years.

At the same time, the Romanian industry accelerated in 2017 (8.2% YoY, the best dynamics since 2007) due to the development of the manufacturing sector in the context of export revival and domestic consumption improvement. The IT&C sector continued to increase at an annual rate exceeding 10% in 2017. On the other hand, the construction industry decelerated by 5.4% in 2017 vs. 2016 (mainly in terms of capital and workforce).

The labor market continued to improve during the last trimesters, due to the re-launch of productive investments, the migration of the active population and the lower weight of the informal sector. The unemployment rate decreased to 4.6% at the end of 2017, the lowest level of the last decades.

The financial side of economy was marked by the positive annual dynamics of consumer prices and the inflationary pressure intensification beginning in the autumn of the last year, in the context of certain supply shocks and of the economic growth exceeding potential rates. The 2017 average inflation rate was of 1.3% (1.1% based upon the harmonized consumer price index in the EU).

By the end of the last year, inflation exceeded the level targeted by the National Bank, being situated close to the upper limit of the targeted interval (1.5%-3.5%).

Given the circumstances, the NBR readjusted the monetary policy in the last meeting sessions of 2017. On the one hand, the National Bank narrowed the interest rate spread for standing facilities around the reference rate. On the other hand, the NBR announced the increase of the monetary policy interest rate as of 2018 (the increase of the reference rate from 1.75% to 2.00% in January and from 2.00% to 2.25% in February).

The domestic demand acceleration, the low level of the actual cost of financing and the improving financial performance of the banking sector have led to the consolidation of the positive climate on the credit market over the last trimesters.

4. Financial risk management *(continued)*

f) Business environment *(continued)*

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

According to the NBR statistics, the balance of non-government loans advanced on average by 4.6% YoY in 2017, as compared to 1.9% in 2016.
The RON denominated non-government loans increased on average by 15.1% in 2017: retail loans increased by 22% YoY (due to the improvement of the population's income, the First House Program and the accessible effective interest rates), whereas company loans increased by 8% YoY due to the re-launch of investments and the low levels of the actual cost of finance.
On the other hand, the FCY non-government loans contracted on average by 8.1% YoY in 2017: retail and company loans decreased by 12.4%, respectively 3.6%.
At the end of 2017, the weight of the RON loans in the total non-government loans was of 62.8% (the highest level in the last decades).
Additionally, the NBR statistics indicate that non-government deposits continued to grow at a faster pace as compared to loans in 2017. Deposits grew on average by 9.9% in 2017, due to the increase in the population's income, the improvement of the companies' results and the higher savings rate.
Consequently, the loans-to-deposits ratio continued the downward trend in the last trimesters, to 76.7% at the end of 2017 (a record low level).
Last but not least, the financial performance of the banking sector improved in 2017, due to the economic dynamics exceeding potential rates, the monetary policy related decisions and signals, the ongoing efforts for balance sheet cleanup (the non-performing loans ratio diminished to 6.4% in December, the lowest level since 2009)
At the end of 2017, the total assets of the banking sector stood at RON 427.4 billion (a record high level), up by 8.6% YoY, according to the NBR statistics.
The banking sector recorded an aggregated net profit of RON 5.4 billion last year, higher by 30.6% YoY.
At the end of 2017, the capital adequacy ratio in the banking sector was 18.86%, much above the minimum regulatory level.

(i) The low of Datum in solutum

Law No. 77/2016 on the giving in payment of mortgaged assets in order to extinguish loan related debt, was published in the Romanian Official Gazette, Part I, No. 330 dated April 28, 2016.

The law regulates the relationship between consumers and credit institutions, non-banking financial institutions or the assignment of receivables held over the consumers, and establishes that, by way of derogation from the provisions of the Civil Code, the consumer has the right to have its debt, resulting from loan agreements and the exhibits thereof, extinguished without additional costs, by giving in payment the asset mortgaged in favor of the lender, if the parties of the loan agreement do not conclude another agreement within the period stipulated in the law.

On October 25, 2016, Constitutional Court approved exceptions for the unconstitutionality of the law.
The letter of the Constitutional Court justified the approved exceptions, regarding the cancelation of certain phrases in the law, aspects that partially limit the debtors' access to the protection conferred by law. As such, the debtor could close the loan by giving in payment the mortgaged property only if hardship can be demonstrated.

4. Financial risk management *(continued)*

g) Operational risk

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

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

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

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

4. Financial risk management *(continued)*

g) Operational risk *(continued)*

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

h) Capital management

The internal capital adequacy assessment process within Banca Transilvania is part of the administration and management process of the credit institution, of its decision-making culture, which states that the management body ensures the proper identification, measurement, aggregation and monitoring of the institution's risks, and provides for an adequate internal capital in line with the risk profile and the use and development of sound risk management systems.
The National Bank of Romania monitors capital requirements both at the Bank and at the Group level.
Capital adequacy is determined according to the Regulation (EU) No 575/2013 of the European Parliament and of the Council and impose a minimum mandatory level of own funds level of:

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

Likewise, pursuant to the regulated approaches for the determination of the minimum capital requirements and EU Regulation 575/2013 in correlation with the provisions of NBR's Regulation no. 5/2013 and considering the capital buffers imposed by the National Bank of Romania, the Bank and the Group maintain:

- a capital preservation buffer of 1.25% of the total value of the risk-weighted exposures between 1 January 2016-31 December 2016;
- an O-SII buffer of 1% of the total risk weighted exposures.

Considering the transition to the new financial reporting standard IFRS 9 "Financial Instruments", the Group's and Bank's own funds will be impacted through the retained earnings. The impact will be insignificant, being mitigated by the phase-in option given by the competent authority and adopted by the Group and the Bank

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

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

The Bank and the Group comply with the above regulations, the level of the capital adequacy ratio exceeding the minimum mandatory requirements imposed by the law.
As at 31 December 2017 and 31 December 2016, as well as during the years 2017 and 2016, the Group and the Bank complied with all the capital adequacy requirements.

4. Financial risk management *(continued)*

h) Capital management *(continued)*

Own funds adequacy *(continued)*

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

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

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

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

The level and the requirements of own funds as at 31 December 2017 and 31 December 2016 are as follows:

	Group		Bank	
In RON thousand	**2017**	**2016**	**2017**	**2016**
Tier 1 own funds	6,682,389	5,525,452	6,512,912	5,398,562
Tier 2 own funds	310,496	350,191	310,496	350,191
Total own funds	**6,992,885**	**5,875,643**	**6,823,408**	**5,748,753**

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

	Group		Bank	
In %	**2017**	**2016**	**2017**	**2016**
Core tier one ratio	20.21	17.99	20.14	17.86
Tier one ratio	20.21	17.99	20.14	17.86
CAR	21.15	19.14	21.10	19.02

Note: The calculation of the Group's and the Bank's own funds takes into account the statutory profit of the Group, respectively of the Bank for the financial years ended on 31 December 2017 and on 31 December 2016. Regulatory capital as at 31 December 2017 and 31 December 2016 was calculated according to the IFRS standards endorsed by the European Union.

5. Accounting estimates and significant judgements

The Group and the Bank make estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. 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 losses on loans and advances

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

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

To the extent that the net value of the future cash flows estimated by the Group, in 2017, differs by +/-5 %, the impairment allowance for loans and advances to customers would be RON 26,670 thousand higher or RON 25,241 thousand lower.

To the extent that the net value of the future cash flows estimated by the Bank in 2017, differs by +/-5 %, the impairment allowance for loans and advances to customers would be RON 25,374 thousand higher or RON 24,289 thousand lower.

According to Law 77/2016 on the giving in payment (Romanian "DIP") of certain residential real estate properties, the debtors who have real estate or mortgage loans collateralized by such properties may surrender them to the financing banks and the loans are to be considered closed, regardless if the fair value (respectively the property sale price) covers or not the existing gross exposure. The Law was approved and entered into force on May 13, 2016.

DIP applies only to natural persons and with respect to real estate or mortgage loans below EUR 250,000, which are secured by residential property. The Law is applicable both to active ongoing loan contracts and to future loan contracts.

On October 25, 2016, the Constitutional Court approved exceptions for the unconstitutionality of the law, regarding the cancelation of certain phrases in the law, aspects that partially limit the debtors' access to the protection conferred by the law. As such, the debtor could close the loan by giving in payment the mortgaged property only if hardship can be demonstrated.

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

a) Impairment losses on loans and advances to customers (continued)

Hardship is defined by art. 1271 of the New Civil Code - if the execution of a contract has become excessively onerous due to exceptional changes which would render the coercion of the debtor to fulfill the contractual obligation clearly unfair. The depreciation of the real estate value or the increase of FX rates for FCY denominated loans are not sufficient arguments to implicitly demonstrate the hardship condition. The decision on the hardship clause is made only in Court, by the judge.

Approach of Banca Transilvania
The Bank calculated specific provisions for all clients that requested the giving in payment (DIP).
The other loans to which the provisions of the law might apply were collectively assessed by the bank. The management made professional judgements to assess the required level of provisions. The judgements considered the Bank's portfolio to which the "hardship" clause may apply and the related probability of default (PD).
In estimating the population of clients, the bank analyzed the LTV (loan to collateral value) and the behavioral aspects related to the mortgage and real estate loan portfolio. The PD values were determined based on the LTV thresholds and by extrapolating past behavior.

b) Future tax losses realization

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

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

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

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

b) Future fiscal losses realization (continued)

The Romanian fiscal authorities issued a negative opinion, considering that the bargain gain is taxable (as recorded based on IFRS), the sole argument to sustain this position being that the bargain gain is not included in the list of non-taxable income elements specifically stipulated in the Fiscal Code applicable as of 31 December 2015.

The Bank initiated court proceedings in this respect in 2017. The case file was submitted to the Cluj Court of Appeal in April 2017. In November 2017, the Court of Appeal in Cluj admitted the file to trial and issued a favorable opinion for the Bank, confirming the Bank's approach to consider the bargain gain as non-taxable income. The judgement of the Cluj Court of Appeal has a 15-day period of appeal since its promulgation. If any appeal is filed, the case will be forwarded to the High Court of Cassation and Justice of Romania.

According to the expectations of the Bank's management and legal counsels, the litigation may last for a longer period, between 1 and 3 years, until the case file is brought before the Supreme Court. The Bank believes that there is a good chance of success, considering the strong arguments so far presented and admitted at the initial stage of the proceedings by the Cluj Court of Appeal.

However, the tax approach on this matter remains uncertain and if the Bank does not obtain a favorable resolution in court, the Bank will have to consider the bargain gain as taxable income and may incur potential penalties, if applicable.
Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through the future taxable profits is probable. The estimation of future taxable profits is based on a financial plan and analysis at the level of the Bank's management. The plan takes into consideration several factors, such as the organic growth of operating incomes, a moderate risk approach, tight cost control, increased efficiency and maintenance of a good capital base and a steady liquidity position.

As a result of the merger with VBRO on 31 December 2015, the Bank also took over the fiscal losses incurred by VBRO and carried forward to that respective date, in total amount of RON 3,767,958 thousand. The unutilized fiscal losses as at 31 December 2017 were in amount of RON 1,086,380 thousand (2016: 2,302,159 Ron thousand). The deferred tax asset as at 31 December 2017 amounted to RON 173,821 thousand (2016: RON 368,345 thousand), which is the equivalent of a fiscal loss carried forward and unutilized in amount of RON 1,086,380 thousand (2016: 2,302,159 Ron thousand).
In Romania, tax periods allowing the recovery of fiscal losses remain open for 7 consecutive years. The Bank's management estimates that sufficient taxable profit will be achieved from current financial-banking operations in order to recover the carried forward fiscal losses and to cover the deferred income tax asset balance until the financial year 2019.

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

c) Risk provisions for abusive clauses

At the end of 2017, the Bank recorded provisions for abusive clauses in the loan contracts following the implementation of the Government Emergency Ordinance 50/2010 (see Note 34). The management developed a methodology to estimate the required provision for abusive clauses, that involves making assumptions about the number of future legal cases to be initiated against the Bank and the probability of success of current and future cases based on historical data. At the end of 2015, the Bank estimated a high risk of litigations being initiated (due to the negative news related to Volksbank Romania at the merger date) and recorded proper provisions in line with these expectations in the Financial Statements of 2015. In 2016 and subsequently in 2017, the Bank re-assessed the assumptions used in the calculation of provisions for abusive clauses based on recent historical data (litigations against the Bank initiated between 2016-2017 and positive or negative outcome of the litigations closed in the same period). In the 2017 financial statements the Bank took into consideration the significant uncertainties existing upon the completion of such statements, but also other potential mitigating factors; therefore a part of the provision for this risk was released in the 2017 income statement.

The Bank is constantly monitoring changes regarding the legislative initiatives in Romania and the decisions of the national and international courts (such as the European Court of Justice) which may affect its loan portfolio and takes into consideration also these factors when elaborating the assumptions regarding the future process evolution and the probability of success.

6. Segment reporting

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

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

For the purpose of segment reporting at Group level, the "Micro" segment includes the Bank and the subsidiary BT Microfinantare IFN SA, the "Leasing and consumer finance" segment includes the leasing and consumer finance entities, as described in Note 1, whereas the "Other-Group" segment includes all the other subsidiaries. The "Removals & Adjustments" segment comprises intra-group operations.

The reporting segments are organized and managed separately, depending on the nature of products and services provided, each segment being specialized on certain products and operating on different markets.

6. Segment reporting *(continued)*

A reporting segment is a component of the Group and of the Bank:

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

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

Large Corporate Clients („LaCo"): The Group and the Bank include in this category mainly companies/group of companies with an annual turnover exceeding RON 100 million, as well as legal entities created to serve a particular function (SPV), public entities and financial institutions included in this category based on specific classification criteria. The companies in this category usually have specific and sophisticated needs. Through its centralized and customized approach, the Bank seeks to ensure high operational efficiency, a prompt assessment of the specific needs of this type of clients in order to offer the appropriate customized solutions, but also an in-depth perspective of the risk profile in order to maintain a high quality loan portfolio.

The Large Corporate clients have access to an all inclusive package of banking products and services, the incomes generated by this segment resulting from lending operations, current business operations (transaction banking, Treasury, trade finance and retail products) and other related services (leasing, asset management, consultancy on mergers and acquisitions, capital market advisory services). Through the services provided, the Bank aims at extending its cooperation to the business partners of the LaCo segment - clients/suppliers/employees - by focusing on the increase of non-risk income.

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

6. Segment reporting *(continued)*

Medium Corporate Customers („MidCo”) *(continued)*

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

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

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

The business lifespan (many such clients are fresh companies), the entrepreneur’s expertise and the market on which the company operates generate certain needs that the Group and the Bank attempt to serve through product and service packages dedicated to this category of customers, which have become a hallmark in the banking sector over the years.
Lending products are accessed more frequently as the Micro or SME business takes shape: loans for working capital or investments, letters of guarantee, EU project co-financing, credit cards, leasing, invoice discounting or factoring.
Another important category of products refers to general operations, incoming and outgoing payments, cheques, promissory notes, FX operations, salary payment agreements or bancassurance services. Increased attention is given to the digitalization of our products and services, our clients showing more and more interest in internet & mobile banking, e-commerce, last generation POSs and the integration of financial data in the proprietary accounting systems.

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

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

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

6. Segment reporting *(continued)*

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

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

As at 31 December 2017 and 31 December 2016, the Bank or the Group did not record income exceeding 10% of total incomes in relation to a single customer.

Notes to the Consolidated and Separate Financial Statements

6. Segment reporting *(continued)*

The tables below presents financial information per segments in the consolidated/separate statement of financial position and the operational result before net expenses with the impairment allowance for loans and advances to customers, for the financial year ended at 31 December 2017, and comparative data for 2016:

Reporting segments Group, as at 31 December 2017

In RON thousand	Large Corporate	Mid Corporate	SME	Micro	Retail	Treasury	Leasing and consumer loans granted by non-banking financial institutions	Other - Group	Removals & Adjustments	Total
Gross loans	5,187,784	5,554,330	1,533,658	2,727,707	16,689,357	-	1,173,391	12,435	(758,009)	32,120,653
Provisions	(572,235)	(463,461)	(55,315)	(116,836)	(570,950)	-	(99,348)	(59)	6,513	(1,871,691)
Loans net of provisions	4,615,549	5,090,869	1,478,343	2,610,871	16,118,407	-	1,074,043	12,376	(751,496)	30,248,962
Portfolio of Debt instruments and Equity instruments, net of provisions	-	-	-	-	-	16,115,747	-	225,698	(245,295)	16,096,150
Treasury and inter-bank operations	-	-	-	-	-	11,939,984	46,614	169,720	(170,519)	11,985,799
Intangible assets	58,228	76,951	33,802	65,303	277,836	20,526	4,513	234,317	(1,779)	769,697
Other assets	129,731	140,085	38,762	68,762	421,555	-	19,212	72,368	(186,114)	704,361
Total assets	**4,803,508**	**5,307,905**	**1,550,907**	**2,744,936**	**16,817,798**	**28,076,257**	**1,144,382**	**714,479**	**(1,355,203)**	**59,804,969**
Deposits from customers	5,061,815	5,950,095	1,473,137	6,212,790	30,401,364	127,946	-	2,610	(169,616)	49,060,141
Loans from banks and other financial institutions	94,929	240,419	197,511	304,212	4,385	258,435	931,118	208,369	(752,356)	1,487,022
Subordinated liabilities	-	-	-	-	-	414,578	-	-	-	414,578
Other liabilities	214,861	232,008	64,198	113,884	965,435	-	38,463	86,522	(12,255)	1,703,116
Total liabilities	**5,371,605**	**6,422,522**	**1,734,846**	**6,630,886**	**31,371,184**	**800,959**	**969,581**	**297,501**	**(934,227)**	**52,664,857**
Equity and related items	-	-	-	-	-	-	-	7,140,112	-	7,140,112
Total liabilities and equity	**5,371,605**	**6,422,522**	**1,734,846**	**6,630,886**	**31,371,184**	**800,959**	**969,581**	**7,437,613**	**(934,227)**	**59,804,969**

6. Segment reporting *(continued)*

***Reporting segments Group* as at 31 December 2016**

In RON thousand	Large Corporate	Mid Corporate	SME	Micro	Retail	Treasury	Leasing and consumer loans granted by non-banking financial institutions	Other - Group	Removals & Adjustments	Total
Group, as at 31 December 2016										
Gross loans	5,269,724	5,298,218	1,405,942	2,318,283	15,087,560	-	744,323	14,823	(660,963)	29,477,910
Provisions	(917,862)	(368,156)	(61,439)	(109,556)	(712,738)	-	(78,728)	(59)	4,673	(2,243,865)
Loans net of provisions	4,351,862	4,930,062	1,344,503	2,208,727	14,374,822	-	665,595	14,764	(656,290)	27,234,045
Portfolio of Debt instruments and Equity instruments, net of provisions	-	-	-	-	-	15,180,414	-	180,158	(182,533)	15,178,039
Treasury and inter-bank operations	-	-	-	-	-	8,040,217	36,591	175,004	(172,647)	8,079,165
Intangible assets	55,430	74,521	32,393	59,356	211,567	15,318	3,937	196,637	(1,051)	648,108
Other assets	157,354	160,550	42,690	70,399	459,300	-	17,710	74,205	(177,341)	804,867
Total assets	**4,564,646**	**5,165,133**	**1,419,586**	**2,338,482**	**15,045,689**	**23,235,949**	**723,833**	**640,768**	**(1,189,862)**	**51,944,224**
Deposits from customers	4,586,377	4,740,955	1,327,994	4,841,113	26,355,334	247,268	-	3,102	(173,400)	41,928,743
Loans from banks and other financial institutions	70,116	278,638	155,240	246,620	12,812	1,483,035	555,632	157,909	(655,091)	2,304,911
Subordinated liabilities	-	-	-	-	-	424,111	-	-	-	424,111
Other liabilities	103,448	105,549	28,065	46,282	732,556	-	19,381	111,841	(13,370)	1,133,752
Total liabilities	**4,759,941**	**5,125,142**	**1,511,299**	**5,134,015**	**27,100,702**	**2,154,414**	**575,013**	**272,852**	**(841,861)**	**45,791,517**
Equity and related items	-	-	-	-	-	-	-	6,152,707	-	6,152,707
Total liabilities and equity	**4,759,941**	**5,125,142**	**1,511,299**	**5,134,015**	**27,100,702**	**2,154,414**	**575,013**	**6,425,559**	**(841,861)**	**51,944,224**

6. Segment reporting *(continued)*

Reporting segments Group, as at 31 December 2017

In RON thousand	Large Corporate	Mid Corporate	SME	Micro	Retail	Treasury	Leasing and consumer loans granted by non-banking financial institutions	Other - Group	Removals & Adjustments	Total
Net interest income	110,977	214,772	86,067	186,527	723,149	161,142	81,221	325,585	1,379	1,890,819
Net commission income	50,139	92,281	51,838	202,381	185,752	(1,441)	3,497	47,501	(5,151)	626,797
Net trading income	4,864	23,971	20,826	41,905	73,767	58,334	291	54,672	(291)	278,339
Net gain from sale of available-for-sale financial assets	-	-	-	-	-	(2,092)	-	(954)	(160)	(3,206)
Contribution to the Bank Deposit Guarantee Fund and to the Resolution Fund	(5,438)	(5,617)	(1,594)	(5,752)	(31,295)	-	-	-	-	(49,696)
Other operating income (*)	17,772	17,382	9,717	9,465	54,791	264	9,483	107,116	(52,167)	173,823
Total income	**178,314**	**342,789**	**166,854**	**434,526**	**1,006,164**	**216,207**	**94,492**	**533,920**	**(56,390)**	**2,916,876**
Personnel expenses	(82,230)	(110,342)	(59,484)	(115,066)	(337,537)	(6,241)	(25,664)	(26,663)	-	(763,227)
Operating expenses	(39,571)	(53,678)	(31,017)	(51,000)	(232,743)	(6,087)	(11,158)	(56,528)	15,081	(466,701)
Advertising and promotional expenses	(1,915)	(2,586)	(4,102)	(7,863)	(10,188)	(229)	(1,652)	(501)	71	(28,965)
Depreciation and amortization	(10,500)	(13,172)	(5,751)	(11,214)	(46,029)	(3,368)	(1,317)	(33,673)	-	(125,024)
Other expenses	1,135	(786)	(4,188)	(7,633)	(25,483)	(668)	(3,250)	(20,289)	46	(61,116)
Total Expenses	**(133,081)**	**(180,564)**	**(104,542)**	**(192,776)**	**(651,980)**	**(16,593)**	**(43,041)**	**(137,654)**	**15,198**	**(1,445,033)**
Operating profit before net provision expenses for assets, other risks and commitments	**45,233**	**162,225**	**62,312**	**241,750**	**354,184**	**199,614**	**51,451**	**396,266**	**(41,192)**	**1,471,843**

6. Segment reporting *(continued)*

Reporting segments Group, as at 31 December 2016

In RON thousand	Large Corporate	Mid Corporate	SME	Micro	Retail	Treasury	Leasing and consumer loans granted by non-banking financial institutions	Other - Group	Removals & Adjustments	Total
Net interest income	126,592	224,208	79,457	149,824	709,299	164,666	51,449	257,577	961	1,764,033
Net commission income	43,471	90,680	51,304	170,188	154,799	(979)	3,497	35,776	(2,465)	546,271
Net trading income	4,736	22,517	18,910	32,246	66,296	38,788	876	13,140	(126)	197,383
Net gain from sale of available-for-sale financial assets	-	-	-	-	185,385	110,589	(99)	106,547	(731)	401,691
Contribution to the Bank Deposit Guarantee Fund and to the Resolution Fund	(9,208)	(9,511)	(2,153)	(7,772)	(44,148)	-	-	-	-	(72,792)
Other operating income (*)	9,060	8,735	3,040	2,674	35,643	-	6,490	86,814	(16,540)	135,916
Total income	**174,651**	**336,629**	**150,558**	**347,160**	**1,107,274**	**313,064**	**62,213**	**499,854**	**(18,901)**	**2,972,502**
Personnel expenses	(72,585)	(97,401)	(52,507)	(101,571)	(297,951)	(5,509)	(16,792)	(21,502)	-	(665,818)
Operating expenses	(34,303)	(46,532)	(26,888)	(44,210)	(201,763)	(5,277)	(7,950)	(40,900)	12,494	(395,329)
Advertising and promotional expenses	(2,279)	(3,078)	(4,881)	(9,357)	(12,124)	(272)	(426)	(474)	-	(32,891)
Depreciation and amortization	(8,432)	(10,577)	(4,618)	(9,005)	(36,964)	(2,705)	(964)	(20,646)	-	(93,911)
Other expenses	1,331	(921)	(4,909)	(8,947)	(29,870)	(782)	(11,972)	(12,925)	1,366	(67,629)
Total Expenses	**(116,268)**	**(158,509)**	**(93,803)**	**(173,090)**	**(578,672)**	**(14,545)**	**(38,104)**	**(96,447)**	**13,860**	**(1,255,578)**
Operating profit before net provision expenses for assets, other risks and commitments	**58,383**	**178,120**	**56,755**	**174,070**	**528,602**	**298,519**	**24,109**	**403,407**	**(5,041)**	**1,716,924**

7. Further remarks: Financial assets and liabilities

a) Accounting classifications and fair value

Group 2017	Total carrying amount 2017	Total fair value 2017	*Total carrying amount retail customers*	*Total fair value retail customers*	Retail in RON; Carrying amount	Retail in RON; Fair value	Retail *in FCY;* Carrying amount	Retail *in FCY;* Fair value	*Total carrying amount companies*	*Total fair value companies*	Companies in RON; Carrying amount	Companies in RON; Fair value	Companies *in FCY;* Carrying amount	Companies *in FCY;* Fair value
Financial assets														
Financial assets at fair value through profit or loss (*)	274,850	274,850	-	-	-	-	-	-	274,850	274,850	272,778	272,778	2,072	2,072
Financial assets carried at amortized cost	42,469,078	42,315,208	16,358,827	16,205,322	12,545,225	12,387,094	3,813,602	3,818,228	26,110,251	26,109,886	17,207,584	17,230,945	8,902,667	8,878,941
Financial assets available-for-sale	15,821,300	15,821,300	-	-	-	-	-	-	15,821,300	15,821,300	8,509,024	8,509,024	7,312,276	7,312,276
Total financial assets	**58,565,228**	**58,411,358**	**16,358,827**	**16,205,322**	**12,545,225**	**12,387,094**	**3,813,602**	**3,818,228**	**42,206,401**	**42,206,036**	**25,989,386**	**26,012,747**	**16,217,015**	**16,193,289**
Financial liabilities														
Held for trading financial liabilities	11,906	11,906	-	-	-	-	-	-	11.906	11,906	11,238	11.238	668	668
Financial liabilities measured at amortized cost	52,145,951	52,168,524	30,453,123	30,469,243	17,052,158	17,063,699	13,400,965	13,405,544	21,692,828	21,699,281	15,316,721	15,320,496	6,376,107	6,378,785
Total financial liabilities	**52,157,857**	**52,180,430**	**30,453,123**	**30,469,243**	**17,052,158**	**17,063,699**	**13,400,965**	**13,405,544**	**21,704,734**	**21,711,187**	**15,327,959**	**15,331,734**	**6,376,775**	**6,379,453**

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

As 31 December 2017 the Group did not hold financial assets held-to-maturity.

7. Financial assets and liabilities *(continued)*

a) Accounting classifications and fair value (continued)

					Retail						Companies			
					in RON;		*in FCY;*				in RON;		*in FCY;*	
Group 2016	**Total carrying amount 2016**	**Total fair value 2016**	***Total carrying amount retail customers***	***Total fair value retail customers***	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**	***Total carrying amount companies***	***Total fair value companies***	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Financial assets														
Financial assets at fair value through profit or loss (*)	163,520	163,520	-	-	-	-	-	-	163,520	163,520	158,026	158,026	5,494	5,494
Financial assets held-to-maturity	20,691	20,864	-	-	-	-	-	-	20,691	20,864	-	-	20,691	20,864
Financial assets carried at amortized cost	35,507,361	35,620,019	14,538,767	14,571,102	10,535,404	10,475,419	4,003,363	4,095,683	20,968,594	21,048,917	15,066,185	15,112,931	5,902,409	5,935,986
Financial assets available-for-sale	14,993,828	14,993,828	-	-	-	-	-	-	14,993,828	14,993,828	8,261,287	8,261,287	6,732,541	6,732,541
Total financial assets	**50,685,400**	**50,798,231**	**14,538,767**	**14,571,102**	**10,535,404**	**10,475,419**	**4,003,363**	**4,095,683**	**36,146,633**	**36,227,129**	**23,485,498**	**23,532,244**	**12,661,135**	**12,694,885**
Financial liabilities														
Held for trading financial liabilities	10,947	10,947	-	-	-	-	-	-	10,947	10,947	10,347	10,347	600	600
Financial liabilities measured at amortized cost	45,116,793	45,143,210	26,396,131	26,413,535	15,306,887	15,321,217	11,089,244	11,092,318	18,720,662	18,729,675	13,687,586	13,694,240	5,033,076	5,035,435
Total financial liabilities	**45,127,740**	**45,154,157**	**26,396,131**	**26,413,535**	**15,306,887**	**15,321,217**	**11,089,244**	**11,092,318**	**18,731,609**	**18,740,622**	**13,697,933**	**13,704,587**	**5,033,676**	**5,036,035**

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

7. Financial assets and liabilities *(continued)*

a) Accounting classifications and fair value (continued)

Bank 2017	Total carrying amount 2017	Total fair value 2017	*Total carrying amount retail customers*	*Total fair value retail customers*	Retail in RON; Carrying amount	Retail in RON; Fair value	Retail *in FCY;* Carrying amount	Retail *in FCY;* Fair value	*Total carrying amount companies*	*Total fair value companies*	Companies in RON; Carrying amount	Companies in RON; Fair value	Companies *in FCY;* Carrying amount	Companies *in FCY;* Fair value
Financial assets														
Financial assets at fair value through profit or loss (*)	83,135	83,135	-	-	-	-	-	-	83,135	83,135	81,540	81,540	1,595	1,595
Financial assets carried at amortized cost	42,065,936	41,941,908	16,127,888	16,007,340	12,390,302	12,267,518	3,737,586	3,739,822	25,938,048	25,934,568	17,008,199	17,027,447	8,929,849	8,907,121
Financial assets available-for-sale	16,032,612	16,032,612	-	-	-	-	-	-	16,032,612	16,032,612	8,709,366	8,709,366	7,323,246	7,323,246
Total financial assets	**58,181,683**	**58,057,655**	**16,127,888**	**16,007,340**	**12,390,302**	**12,267,518**	**3,737,586**	**3,739,822**	**42,053,795**	**42,050,315**	**25,799,105**	**25,818,353**	**16,254,690**	**16,231,962**
Financial liabilities														
Held for trading financial liabilities	11,906	11,906	-	-	-	-	-	-	11.906	11,906	11,238	11.238	668	668
Financial liabilities measured at amortized cost	51,884,554	51,907,127	30,444,753	30,460,873	17,044,290	17,055,831	13,400,463	13,405,042	21,439,801	21,446,254	15,212,398	15,218,835	6,227,403	6,227,419
Total financial liabilities	**51,896,460**	**51,919,033**	**30,444,753**	**30,460,873**	**17,044,290**	**17,055,831**	**13,400,463**	**13,405,042**	**21,451,707**	**21,458,160**	**15,223,636**	**15,230,073**	**6,228,071**	**6,228,087**

Notes to the Consolidated and Separate Financial Statements

7. Financial assets and liabilities *(continued)*

a)Accounting classifications and fair value *(continued)*

Bank 2016	Total carrying amount 2016	Total fair value 2016	*Total carrying amount retail customers*	*Total fair value retail customers*	Retail in RON; Carrying amount	Retail in RON; Fair value	Retail *in FCY;* Carrying amount	Retail *in FCY;* Fair value	*Total carrying amount companies*	*Total fair value companies*	Companies in RON; Carrying amount	Companies in RON; Fair value	Companies *in FCY;* Carrying amount	Companies *in FCY;* Fair value
Financial assets														
Financial assets at fair value through profit or loss (*)	59,890	59,890	-	-	-	-	-	-	59,890	59,890	58,209	58,209	1,681	1,681
Financial assets carried at amortized cost	35,420,346	35,529,906	14,384,081	14,415,723	10,394,022	10,334,008	3,990,059	4,081,715	21,036,265	21,114,183	15,117,527	15,162,576	5,918,738	5,951,607
Financial assets available-for-sale	15,120,524	15,120,524	-	-	-	-	-	-	15,120,524	15,120,524	8,353,210	8,353,210	6,767,314	6,767,314
Total financial assets	**50,600,760**	**50,710,320**	**14,384,081**	**14,415,723**	**10,394,022**	**10,334,008**	**3,990,059**	**4,081,715**	**36,216,679**	**36,294,597**	**23,528,946**	**23,573,995**	**12,687,733**	**12,720,602**
Financial liabilities														
Held for trading financial liabilities	10,947	10,947	-	-	-	-	-	-	10,947	10,947	10,347	10,347	600	600
Financial liabilities measured at amortized cost	45,199,824	45,226,241	26,386,658	26,406,405	15,297,417	15,314,090	11,089,241	11,092,315	18,813,166	18,819,836	13,826,660	13,833,314	4,986,506	4,986,522
Total financial liabilities	**45,210,771**	**45,237,188**	**26,386,658**	**26,406,405**	**15,297,417**	**15,314,090**	**11,089,241**	**11,092,315**	**18,824,113**	**18,830,783**	**13,837,007**	**13,843,661**	**4,987,106**	**4,987,122**

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

7. Financial assets and liabilities *(continued)*

b) Fair value of financial assets and liabilities instruments

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

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

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

Level 3 in the fair value hierarchy
The fair value of financial assets and liabilities included in Level 3 in the fair value hierarchy is determined using inputs based on data of an observable market (unobservable data inputs shall be used to measure fair value to the extent that participanta in market condition would establish the price of an asset or a liability, based on assumptions related to risk level).
The objective of valuation techniques is to derive the fair value that reflects a price for the financial instrument at the reporting date, price that would be obtained by the market participants acting at arm's length.

The availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determination of fair value. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

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

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

At level 1 in the fair value hierarchy, the Bank and the Group included in the category of assets: equity instruments and debt instruments held at fair value through profit or loss, bonds classified as available for sale, except for Municipal bonds.

At level 2 in the fair value hierarchy, the Bank and the Group included in the category of assets: derivative instruments held at fair value through profit or loss, Municipal bonds classified as available for sale; and in the category of liabilities: derivatives classified as financial liabilities held for trading.

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

7. Financial assets and liabilities *(continued)*

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

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

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

Group - *In RON thousand*	**Notes**	**Level 1 - Quoted market prices in active markets**	**Level 2 - Valuation techniques – observable inputs**	**Level 3 - Valuation techniques – unobservable inputs**	**Total**
31 December 2017					
Financial assets at fair value through profit or loss, of which:	**20**	***264,996***	**-**	**-**	***264,996***
- Equity instruments	*20*	*213,838*	-	-	*213,838*
- Debt instruments	*20*	*51,158*	-	-	*51,158*
Derivatives	***47***	**-**	***9,854***	**-**	***9,854***
Financial assets available-for-sale	**23**	***15,757,123***	***60,652***	***3,525***	***15,821,300***
Total financial assets measured at fair value in the statement of financial position		**16,022,119**	**70,506**	**3,525**	**16,096,150**
Non-financial assets at fair value					
- Tangible assets and investment property	**25**	-	-	633,668	**633,668**
Total assets measured at fair value in the statement of financial position		**16,022,119**	**70,506**	**637,193**	**16,729,818**
Financial liabilities held-for-trading	**47**	**-**	**11,906**	**-**	**11,906**
31 December 2016					
Financial assets at fair value through profit or loss	**20**	***155,609***		**-**	***155,609***
- Equity instruments	*20*	*145,156*	-	-	***145,156***
- Debt instruments	*20*	*10,453*	-	-	***10,453***
Derivatives	***47***	**-**	***7,911***	**-**	***7,911***
Financial assets available-for-sale	**23**	***14,929,689***	***61,027***	***3,112***	***14,993,828***
Total financial assets measured at fair value in the statement of financial position		**15,085,298**	**68,938**	**3,112**	**15,157,348**
Non-financial assets at fair value					
- Tangible assets and investment property	**25**	-	-	558,734	**558,734**
Total assets measured at fair value in the statement of financial position		**15,085,298**	**68,938**	**561,846**	**15,716,082**
Financial liabilities held-for-trading	**47**	**-**	**10,947**	**-**	**10,947**

7. Financial assets and liabilities *(continued)*

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

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

Bank - *In RON thousand*	Notes	Level 1 - Quoted market prices in active markets	Level 2 - Valuation techniques – observable inputs	Level 3 - Valuation techniques – unobservable inputs	Total
31 December 2017					
Financial assets at fair value through profit or loss, of which:	**20**	***73,281***	**-**	**-**	***73,281***
- Equity instruments	*20*	73,281	-	-	73,281
Derivatives	*47*	**-**	**9,854**	**-**	**9,854**
Financial assets available-for-sale	**23**	***15,968,868***	***60,652***	***3,092***	***16,032,612***
Total financial assets measured at fair value in the statement of financial position		**16,042,149**	**70,506**	**3,092**	**16,115,747**
Non-financial assets at fair value					
- Tangible assets and investment property	**25**	-	-	407,649	407,649
Total assets measured at fair value in the statement of financial position		**16,042,149**	**70,506**	**410,741**	**16,523,396**
Financial liabilities held-for-trading	**47**	**-**	**11,906**	**-**	**11,906**
31 December 2016					
Financial assets at fair value through profit or loss, of which:	**20**	***51,979***	**-**	**-**	***51,979***
- Equity instruments	*20*	*51,979*	-	-	51,979
Derivatives	*47*	**-**	***7,911***	**-**	***7,911***
Financial assets available-for-sale	**23**	***15,056,405***	***61,027***	***3,092***	***15,120,524***
Total financial assets measured at fair value in the statement of financial position		**15,108,384**	**68,938**	**3,092**	**15,180,414**
Non-financial assets at fair value					
- Tangible assets and investment property	**25**	-	-	370,305	**370,305**
Total assets measured at fair value in the statement of financial position		**15,108,384**	**68,938**	**373,397**	**15,550,719**
Financial liabilities held-for-trading	**47**	**-**	**10,947**	**-**	**10,947**

Notes to the Consolidated and Separate Financial Statements

7. Financial assets and liabilities *(continued)*

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

ii) Financial instruments not carried at fair value

At level 1 in the fair value hierarchy, the Group classified securities held-to-maturity.

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

At level 3 in the fair value hierarchy, the Bank and the Group included in the category of assets: securities classified as placements with banks as loans and receivables and other financial assets; and in the category of liabilities: loans from banks and other financial institutions, subordinated loans and other financial liabilities.

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

		Group					Bank				
RON thousand	Note	Carrying amount	Fair value	Fair value hierarchy Level 1	Level 2	Level 3	Carrying amount	Fair value	Fair value hierarchy Level 1	Level 2	Level 3
ASSETS											
Placements with banks	19	5,348,074	5,348,074	-	5,125,282	222,792	5,302,292	5,302,292	-	5,079,500	222,792
Loans and advances to customers	21	29,463,632	29,304,298	-	29,304,298	-	29,914,039	29,790,011	-	29,790,011	-
Financial leasing receivables	22	785,330	790,993	-	790,993	-	-	-	-	-	-
Other financial assets	28	234,317	234,317	-	-	234,317	211,913	211,913	-	-	211,913
TOTAL ASSETS		**35,831,353**	**35,677,682**	**-**	**35,220,573**	**457,109**	**35,428,244**	**35,304,216**	**-**	**34,869,511**	**434,705**
LIABILITIES											
Deposits from banks	30	127,946	127,946	-	127,946	-	127,946	127,946	-	127,946	-
Deposits from customers	31	48,932,195	48,954,768	-	48,954,768	-	49,099,201	49,121,774	-	49,121,774	-
Loans from banks and other financial institutions	32	1,487,022	1,487,022	-	-	1,487,022	1,099,891	1,099,891	-	-	1,099,891
Subordinated liabilities	33	414,578	414,578	-	-	414,578	414,578	414,578	-	-	414,578
Other financial liabilities	35	1,184,210	1,184,210	-	-	1,184,210	1,142,938	1,142,938	-	-	1,142,938
TOTAL LIABILITIES		**52,145,951**	**52,168,524**	**-**	**49,082,714**	**3,085,810**	**51,884,554**	**51,907,127**	**-**	**49,249,720**	**2,657,407**

7. Financial assets and liabilities *(continued)*

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

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

The table below presents the fair value and the fair value hierarchy for the financial assets and liabilities that are not measured at fair value in the statement of financial position at 31 December 2016:

		Group					Bank				
RON thousand	**Note**	**Carrying amount**	**Fair value**	**Fair value hierarchy Level 1**	**Level 2**	**Level 3**	**Carrying amount**	**Fair value**	**Fair value hierarchy Level 1**	**Level 2**	**Level 3**
ASSETS											
Placements with banks	19	2,785,505	2,785,505	-	2,563,815	221,690	2,746,582	2,746,582	-	2,524,892	221,690
Loans and advances to customers	21	26,710,402	26,819,962	-	26,819,962	-	27,209,976	27,319,536	-	27,319,536	-
Financial leasing receivables	22	523,643	526,741	-	526,741	-	-	-	-	-	-
Investment securities, held-to-maturity	23	20,691	20,864	20,864	-	-	-	-	-	-	-
Other financial assets	28	194,151	194,151	-	-	194,151	170,153	170,153	-	-	170,153
TOTAL ASSETS		**30,234,392**	**30,347,223**	**20,864**	**29,910,518**	**415,841**	**30,126,711**	**30,236,271**	**-**	**29,844,428**	**391,843**
LIABILITIES											
Deposits from banks	30	247,268	247,268	-	247,268	-	247,268	247,268	-	247,268	-
Deposits from customers	31	41,681,475	41,707,892	-	41,707,892	-	41,851,773	41,878,190	-	41,878,190	-
Loans from banks and other financial institutions	32	2,304,911	2,304,911	-	-	2,304,911	2,246,461	2,246,461	-	-	2,246,461
Subordinated liabilities	33	424,111	424,111	-	-	424,111	424,111	424,111	-	-	424,111
Other financial liabilities	35	459,028	459,028	-	-	459,028	430,211	430,211	-	-	430,211
TOTAL LIABILITIES		**45,116,793**	**45,143,210**	**-**	**41,955,160**	**3,188,050**	**45,199,824**	**45,226,241**	**-**	**42,125,458**	**3,100,783**

Notes to the Consolidated and Separate Financial Statements

8. Net interest income

In RON thousand	Group 2017	Group 2016	Bank 2017	Bank 2016
Interest income				
Loans and advances to customers *(i)*	1,640,796	1,595,379	1,621,860	1,586,125
Current accounts held with banks	1,838	4,501	1,835	4,470
Financial assets available-for-sale (note 23)	252,503	247,451	251,719	246,572
Securities reclassified as "Placements with banks"	11,220	10,876	11,220	10,876
Securities held-to-maturity	161	407	-	-
Placements with banks	19,155	10,082	18,702	9,900
Financial leasing receivables	62,493	45,182	-	-
Increase of the recoverable value of the acquired loans	114,455	113,688	113,235	113,286
Total interest income	***2,102,621***	***2,027,566***	***2,018,571***	***1,971,229***
Interest expense				
Deposits from customers	164,821	222,340	165,249	222,618
Loans from banks and other financial institutions	39,258	39,977	37,164	36,690
Deposits from banks	7,709	1,187	7,709	1,187
Financial leasing receivables	14	29	-	-
Total interest expense	***211,802***	***263,533***	***210,122***	***260,495***
Net interest income	**1,890,819**	**1,764,033**	**1,808,449**	**1,710,734**

(i) Interest income for the year ended at 31 December 2017 includes net interest income on impaired financial assets amounting RON 159,245 thousand (2016: RON 148,380 thousand) for the Group and RON 145,477 thousand (2016: RON 140,238 thousand) for the Bank.

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

9. Net fee and commission income

In RON thousand	Group 2017	Group 2016	Bank 2017	Bank 2016
Fee and commission income				
Commissions from treasury and inter-bank operations	53,196	48,370	53,196	48,370
Client transactions	646,583	555,644	607,189	527,109
Lending activity (i)	44,036	48,463	44,063	48,504
Finance lease management	376	293	-	-
Other fee and commission income	122	130	123	131
Total fee and commission income	***744,313***	***652,900***	***704,571***	***624,114***
Fee and commission expense				
Commissions from treasury and inter-bank operations	98,098	86,904	97,889	86,693
Client transactions	16,478	16,727	13,963	14,900
Lending activity (i)	1,737	2,085	10,327	12,079
Other fee and commission income	1,203	913	1,442	979
Total fee and commission expense	***117,516***	***106,629***	***123,621***	***114,651***
Net fee and commission income	**626,797**	**546,271**	**580,950**	**509,463**

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

(i) The commissions resulting from lending activities include restructuring fees, prepayment fees, commissions for guarantee assessment and modification, commitment fees, charges for the recovery of foreclosed assets.

10. Net trading income

	Group		Bank	
In RON thousand	**2017**	**2016**	**2017**	**2016**
Net income from foreign exchange transactions	196,364	174,174	196,425	174,140
Net income/(expense) from derivatives	20,394	(1,782)	20,394	(1,782)
Net income/ (expense) from financial assets at fair value through profit and loss	75,974	17,566	17,554	3,395
Net income / (expense) from foreign exchange position revaluation	(14,393)	7,425	(10,706)	7,740
Net trading income	**278,339**	**197,383**	**223,667**	**183,493**

11. Net loss / gain from sale of available-for-sale financial assets

	Group		Bank	
In RON thousand	**2017**	**2016**	**2017**	**2016**
Profit from sale of available-for-sale financial assets	66,358	443,219	65,139	443,336
Losses from sale of available-for-sale financial assets	(69,564)	(41,528)	(69,241)	(41,110)
Total net loss / gain from sale of available-for-sale financial assets	**(3,206)**	**401,691**	**(4,102)**	**402,226**

The income resulting from the sale of financial assets available-for-sale as at 31 December 2016 includes also the gain resulting from the sale transaction of Visa Europe to VISA Inc, plus a compensation in convertible shares of Visa Inc. and a contingent gain related to the future performance of Visa Inc.

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

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

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

12. Contribution to the Deposit Guarantee Fund and to the Resolution Fund *(continued)*

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

	Group		Bank	
	2017	**2016**	**2017**	**2016**
Contribution to the Bank Deposit Guarantee Fund	9,814	58,191	9,814	58,191
Bank Resolution Fund	39,882	14,601	39,882	14,601
Total	**49,696**	**72,792**	**49,696**	**72,792**

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

13. Other operating income

	Group		Bank	
In RON thousand	**2017**	**2016**	**2017**	**2016**
Dividend income	3,857	7,892	41,878	11,640
Income from e-commerce transactions	3,562	2,459	3,562	2,459
Income from operational lease	51,190	32,250	-	-
Income from insurance intermediation	38,675	26,423	34,881	23,310
Revaluation of investment property	43	155	43	68
Income from the sale of finished products	24,454	15,430	-	-
Income from the sale of available-for-sale assets	7,032	6,475	5,706	31
Income from VISA, MASTERCARD, WU services	5,881	6,857	5,881	6,857
Other operating income *(i)*	39,129	37,975	24,245	27,218
Total	**173,823**	**135,916**	**116,196**	**71,583**

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

14. Net impairment allowance on assets, provisions for other risks and loan commitments

	Group		Bank	
In RON thousand	2017	2016	2017	2016
Impairment losses on assets (i)	455,788	1,027,514	413,062	1,008,330
Loans written off	4,139	421	4,109	265
Financial leasing receivables written off	6,524	8,254	-	-
Provisions for other risks and loan commitments	(133,936)	(217,691)	(134,626)	(217,694)
Recoveries from loans written off	(283,971)	(136,795)	(283,898)	(136,678)
Recoveries from net lease investments written off	(19,323)	(23,616)	-	-
Net impairment allowance on financial assets, provisions for other risks and loan commitments	**29,221**	**658,087**	**(1,353)**	**654,223**

(i) Impairment losses on assets include the following:

		Group		Bank	
In RON thousand	Note	2017	2016	2017	2016
Loans and advances to customers	21	435,283	1,023,342	416,049	1,013,123
Financial leasing receivables	22	24,704	8,231	-	-
Other financial assets	28	2,317	(3,313)	742	109
Other non-financial assets	29	(6,510)	(820)	(3,729)	(4,902)
Property and equipment and intangible assets	25,26	(6)	74	-	-
Net impairment allowance on assets		**455,788**	**1,027,514**	**413,062**	**1,008,330**

15. Personnel expenses

	Group		Bank	
In RON thousand	2017	2016	2017	2016
Salaries	545,117	466,964	511,678	442,355
Contribution to social security	86,972	74,767	81,092	70,378
Share payments to employees	35,681	30,000	35,681	30,000
Bonuses to employees	2,458	2,053	-	-
3rd Pension Pillar	6,728	6,407	6,503	6,407
Other staff expenses	39,446	29,130	37,156	27,955
Contribution to the health fund	32,633	28,082	30,672	26,637
Contribution to the unemployment fund	3,931	3,402	3,751	3,264
Net expenses with provisions for overdue vacations and other provisions	10,261	25,013	8,857	24,491
Total	**763,227**	**665,818**	**715,390**	**631,487**

The average monthly number of the Group's and the Bank's new staff employed during 2017 and 2016 was:

Category	**Average monthly number of new employees during 2017**		**Average monthly number of new employees during 2016**	
	Group	**Bank**	**Group**	**Bank**
Management positions	0.92	0.17	2.21	0.75
Operational positions	103.06	90.14	111.42	95.16
TOTAL	**103.98**	**90.31**	**113.63**	**95.91**

15. Personnel expenses *(continued)*

The employer's expenses related to the share-based payments are included in the wages and salaries and amounted to RON 35,680 thousand in 2017 (2016: RON 30,000 thousand), both for the Group and the Bank. In 2017, the Bank granted shares to employees.
The Bank established a Stock Option Plan, by which its employees may exercise the right and option to purchase a number of shares issued by the Bank.
SOP vesting conditions for 2017:

- Achievement of performance and prudential indicators during 2016;
- Achievement of certain individual eligibility and/or performance criteria, in accordance with the applicable remuneration policy, related to the year for which shares are granted;
- Successful completion of certain special projects (where applicable);
- Being an employee upon the granting of the SOP option right (01 August 2016) and when exercising such right (starting from 01 August 2017);
- Contractual period of the SOP scheme for 2016:
- Immediate release - starting from 01 August 2017 but no later than 31 August 2017;
- Deferral period for the identified personnel - minimum 3 years.

The impact in profit or loss of a possible value change of the shares which are to be granted to the employees under the Stock Option Plan for 2017, by a maximum regulated by The Bucharest Stock Exchange value of +/-15.00% would be of RON +/- 5,352 thousand.

The movement in transactions relating to share-based payments during 2017 and 2016 is presented below:

	2017	**2016**
Balance as at 1 January	30,000	-
Rights granted during the year	44,014	-
Exercised during the year	-	-
Charge establishment	35,680	30,000
Closing balance at the end of period	**21,666**	**30,000**

A number of 17,000,000 shares were granted to employees and shareholders in 2017; during the year 2016 no shares were granted to the employees.

Granting date	**Number of shares**	**Contractual vesting period**	**Vesting conditions**
Shares granted to employees for the year 2016	15,969,333	With immediate release on 02 August 2017	Achievement of performance and prudential indicators during 2016. Achievement of certain individual eligibility criteria, in accordance with the applicable remuneration policy, related to the year for which shares are granted
	1,030,667	With deferred repayment for 3 years	

16. Other operating expenses

	Group		Bank	
In RON thousand	**2017**	**2016**	**2017**	**2016**
Rent and operating lease expense	91,350	90,285	96,459	95,463
Repairs and maintenance expenses	92,283	77,805	91,548	76,956
Advertising, marketing, entertainment and sponsorship expenses	59,719	58,105	56,635	56,670
Mail, telecommunication and SMS traffic expenses	42,209	35,976	41,125	34,929
Materials and stationery	74,748	47,479	55,222	34,454
Other professional fees, including legal expenses	33,444	30,469	33,098	30,238
Expenses regarding movable and immovable assets resulting from debt enforcement	2,804	3,317	3,668	3,855
Electricity and heating	17,520	17,095	14,345	15,076
Travel and transportation	18,062	15,949	16,582	15,071
Insurance costs	13,159	12,030	12,430	11,300
Taxes and fees	12,233	12,712	7,472	9,151
Write-off and loss on disposal of property and equipment and intangible assets	8,447	9,424	3,209	8,977
Security and protection	8,870	6,792	8,832	6,688
Expenses with the assessment of third party guarantees	11,065	5,760	11,050	5,752
Expenses related to archiving services	11,287	5,650	11,243	5,633
Expenses related to database queries from the Trade Register and the Credit Bureau	3,144	2,802	3,007	2,702
Expenses with foreclosed assets	1,899	2,314	1,728	2,125
Audit, advisory and consultancy	2,258	2,868	1,708	1,982
- out of which, audit fees	*2,041*	*1,879*	*1,548*	*1,339*
- out of which, other advisory and consultancy fees	*217*	*989*	*160*	*643*
Expenses from the sale of leased goods	3,456	11,891	-	-
Revaluation of investment property	43	68	43	68
Other operating expenses	48,782	47,058	23,417	30,426
Total other operating expenses	**556,782**	**495,849**	**492,821**	**447,516**

17. Income tax expense

	Grup		Banca	
In RON thousand	**2017**	**2016**	**2017**	**2016**
Gross Profit	**1,442,622**	**1,058,837**	**1,378,500**	**999,123**
Income tax (2017: 16%; 2016: 16%)	**(230,820)**	**(169,414)**	***(220,560)***	***(159,860)***
Fiscal effect of income tax on the following elements:	**30,666**	**36,907**	**28,039**	**38,494**
- *Non-taxable income*	31,305	39,215	*46,390*	*47,391*
- *Non-deductible expense*	(28,533)	(24,881)	*(44,921)*	*(29,680)*
- *Tax deductions*	27,894	22,573	*26,570*	*20,783*
Recognition of tax losses carried forward from previous years	**-**	**350,683**	**-**	**350,683**
Income tax expense	**(200,154)**	**218,176**	**(192,521)**	**229,317**

The tax impact is generated by the following elements:

- Non-taxable incomes include mainly the dividend income obtained from Romanian legal entities and the income resulting from provision reversal.
- Non-deductible expenses include provision expenses, sponsorship expenses, amortization expenses.
- Tax deductions are related to the deductions obtained from tax amortization and the statutory reserves.

18. Cash and cash equivalents with the Central Bank

	Group		Bank	
In RON thousand	2017	2016	2017	2016
Minimum reserve requirement	5,351,174	4,294,163	5,351,174	4,294,163
Cash on hand and other values	1,286,551	999,497	1,286,518	999,472
Total	**6,637,725**	**5,293,660**	**6,637,692**	**5,293,635**

As at 31 December 2017, the minimum reserve requirement held with the National Bank of Romania was set at 8% for funds denominated in RON and EUR (31 December 2016: 8% for RON and 10% for EUR). The minimum reserve balance may fluctuate on a daily basis. The interest paid by the National Bank of Romania for the reserves held by the banks was 0.08% - 0.10% per year for the reserves in RON, 0.02% - 0.05% per year for reserves denominated in EUR and 0.07% - 0.10% per year for reserves denominated in USD. The minimum required reserve can be used by the Bank for its daily activities as long as the average monthly balance is maintained within the required limits.

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

		Group		Bank	
In RON thousand	Note	2017	2016	2017	2016
Cash and cash equivalents with the Central Bank	18	6,637,664	5,293,596	6,637,632	5,293,572
Placements with banks, less than 3 months maturity		4,588,582	1,907,174	4,579,940	1,893,893
Reverse-repo transactions		204,618	440,289	204,618	440,289
Cash and cash equivalents in the cash flow statement		**11,430,864**	**7,641,059**	**11,422,190**	**7,627,754**

19. Placements with banks

	Group		Bank	
In RON thousand	2017	2016	2017	2016
Current accounts with other banks	1,648,315	240,191	1,625,324	232,081
Sight and term deposits with other banks	3,040,837	1,785,872	3,018,046	1,755,059
Reverse repo transactions	204,666	440,317	204,666	440,317
Loans and advances to banks - *reclassified securities (i)*	222,792	221,690	222,792	221,690
Loans and advances to credit institutions	231,464	97,435	231,464	97,435
Total	**5,348,074**	**2,785,505**	**5,302,292**	**2,746,582**

(i) As of 2008 the Group has transferred euro-bonds from the category “assets available-for-sale” into the "loans and advances" category, an operation based on the amendment to IAS 39 "Financial Instruments - Recognition and Measurement" and IFRS 7 "Tools financial Disclosure "(described in accounting policy 3p). The Group identified the financial assets that satisfy the conditions of this category (non-derivative financial assets with fixed or determinable payments that are not quoted on an active market) and the holding in the foreseeable future.

At 31 December 2017, the Group no longer held in its portfolio the securities subject to the abovementioned reclassification.

19. Placements with banks *(continued)*

During 2017, the Bank did not purchase and classify any securities as loans and receivables.

The movement of securities classified as "Loans and advances with banks" in 2017 is reflected in the table below:

	Group		Bank	
In RON thousand	**2017**	**2016**	**2017**	**2016**
As at 1 January	221,690	212,711	221,690	212,711
Acquisitions	-	90,000	-	90,000
Sales and repurchases	-	(82,556)	-	(82,556)
Coupon and amortization in P&L during the year (Note 8)	11,220	10,876	11,220	10,876
Coupon collected at term during the year	(10,868)	(8,989)	(10,868)	(8,989)
Exchange rate differences	750	(352)	750	(352)
As at 31 December	**222,792**	**221,690**	**222,792**	**221,690**

As at 31 December 2017, the placements with banks included reverse-repo securities and term deposits with maturity up to 3 months, which are also included in the separate and consolidated statement of cash flows, as follows: reverse-repo in amount of RON 204,618 thousand and deposits in amount of RON 4,588,582 thousand at Group level, and reverse-repo of RON 204,618 thousand and deposits in amount of RON 4,579,940 thousand at Bank level (2016: repo in amount of RON 440,289 thousand and deposits in amount of RON 1,907,174 thousand at Group level and reverse-repo in amount of RON 440,289 thousand and deposits in amount of RON 1,893,893 thousand at Bank level).

Except for sale and reverse-repo agreements, the amounts due from other banks are not guaranteed. The quality analysis for deposits with banks as at 31 December 2017 and 31 December 2016, according to the rating agencies is detailed below:

Group	**2017**		**2016**	
In RON thousand	Placements with banks	Reverse repo transactions	Placements with banks	Reverse repo transactions
Investment grade	4,981,871	204,666	1,959,962	440,317
Non-investment grade	161,537	-	385,226	-
Total	**5,143,408**	**204,666**	**2,345,188**	**440,317**

Bank	**2017**		**2016**	
In RON thousand	Placements with banks	Reverse repo transactions	Placements with banks	Reverse repo transactions
Investment grade	4,938,379	204,666	1,925,989	440,317
Non-investment grade	159,247	-	380,276	-
Total	**5,097,626**	**204,666**	**2,306,265**	**440,317**

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

The Investment-grade category includes the Group's/Bank's placements with credit institutions having the following ratings: A, A-, A+, AA, AA-, AA+, AAA, BAA1, BAA2, BBB, BBB- and BBB+. The non-investment grade category includes the Group's/Bank's placements with credit institutions having the following ratings: B, B+, B-, B3, BB+ and BB.

20. Financial assets at fair value through profit and loss

In RON thousand	Group		Bank	
	2017	**2016**	**2017**	**2016**
Equity instruments	213,838	145,156	73,281	51,979
Debt instruments	51,158	10,453	-	-
Total	**264,996**	**155,609**	**73,281**	**51,979**

As at 31 December 2017, the Group held shares listed on the Bucharest Stock Exchange and the main stock exchanges in Europe. As at 31 December 2017, the Group owned significant investments amounting to RON 160,871 thousand in the following entities: SIF Moldova S.A., SIF Muntenia SA and SIF Oltenia S.A. 31 December 2016 RON 104,860 thousand).
A qualitative analysis of the share portfolio of the Group and of the Bank as at 31 December 2017 and 31 December 2016 is presented below:

	Group		Bank	
In RON thousand	**2017**	**2016**	**2017**	**2016**
Investment-grade	3,260	1,478	1,431	1,063
Non-investment grade	21,850	-	7,600	-
No rating	239,886	154,131	64,250	50,916
Total	**264,996**	**155,609**	**73,281**	**51,979**

The credit ratings are based on the Standard & Poor's rating, if available, or Moody's rating converted into the nearest equivalent rating according to the scale of Standard & Poor's.
The Investment-grade category includes financial assets at fair value through profit or loss with the following ratings: A+, A-, A and BAA3.
The Non Investment-grade category includes financial assets at fair value through profit or loss with rating B1.
The No rating category includes financial assets at fair value through profit or loss that are not rated.

21. Loans and advances to customers

The Group's and Bank's commercial lending is concentrated on Romanian companies and individuals. The risk distribution of the credit portfolio per sectors, as at 31 December 2017 and 31 December 2016, is the following:

	Group		Bank	
In RON thousand	**2017**	**2016**	**2017**	**2016**
Retail customers	16,867,758	15,252,725	16,687,724	15,086,402
Production	3,436,067	3,198,658	3,428,581	3,198,444
Trading	3,082,344	3,099,957	3,045,401	3,098,455
Agriculture	1,463,467	1,399,459	1,460,052	1,399,361
Constructions	1,185,167	1,142,342	1,177,904	1,142,106
Services	1,230,552	1,139,734	1,213,225	1,138,819
Transportation	865,688	720,730	841,492	719,868
Real estate	906,179	690,693	938,185	723,606
Self-employed	631,458	547,384	598,771	546,418
Others	710,576	526,748	685,569	524,618
Energy	204,090	502,967	204,032	502,967
Telecommunications	269,299	273,057	267,581	273,033
Financial institutions	169,921	141,964	881,618	759,762
Chemical industry	141,210	130,091	145,724	132,914
Mining	89,930	106,177	89,882	106,177
Fishing	17,461	16,175	17,461	16,175
Government institutions	9,634	10,602	9,634	10,602
Total loans and advances to customers before impairment allowance (*)	**31,280,801**	**28,899,463**	**31,692,836**	**29,379,727**
Less provisions for impairment allowance on loans	(1,817,169)	(2,189,061)	(1,778,797)	(2,169,751)
Total loans and advances to customers, net of impairment allowance	**29,463,632**	**26,710,402**	**29,914,039**	**27,209,976**

(*)Total loans and advances before impairment allowance are diminished by the fair value adjustments for the portfolio of loans transferred from VBRO, determined on the basis of the valuation report.

The structure of the credit portfolio of the Bank and Group as at 31 December 2017 and 31 December 2016 is the following:

	Group		Bank	
RON thousand	**2017**	**2016**	**2017**	**2016**
Corporate customer loans	9,990,622	10,408,795	10,742,115	11,063,225
SME	4,261,365	3,230,099	4,261,365	3,230,099
Retail consumer loans	8,228,697	8,149,363	8,228,696	8,149,364
Mortgage loans	8,438,435	6,926,483	8,438,435	6,926,483
Leasing and consumer finance	327,020	159,343	-	-
Others	34,662	25,380	22,225	10,556
Total loans and advances to customers before impairment allowance (*)	**31,280,801**	**28,899,463**	**31,692,836**	**29,379,727**
Less provisions for impairment allowance on loans	(1,817,169)	(2,189,061)	(1,778,797)	(2,169,751)
Total loans and advances to customers before impairment allowance (*)	**29,463,632**	**26,710,402**	**29,914,039**	**27,209,976**

At 31 December 2017 the balance of these adjustments for the Group was of RON 282,313 thousand (31 December 2016: RON 436,153 thousand) and for the Bank was RON 219,693 thousand (31 December 2016: RON 371,242 thousand). The reversal of these adjustments, further to the review of the voluntary cash flows, is booked as Interest income – see note 8(i).

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

The movement in allowances for impairment losses on loans and advances to customers was the following:

	Group		**Bank**	
In RON thousand	**2017**	**2016**	**2017**	**2016**
Balance as at 1 January	(2,189,061)	(2,720,694)	(2,169,751)	(2,632,486)
Net impairment charge (Note 14)	(435,283)	(1,023,342)	(416,049)	(1,013,123)
Effect of discounting the current value	(146,535)	(83,904)	(146,535)	(83,904)
Impairment allowances on written off loans	973,147	1,635,007	972,976	1,555,892
Net FX loss	(19,437)	3,872	(19,438)	3,870
Balance at 31 December	**(1,817,169)**	**(2,189,061)**	**(1,778,797)**	**(2,169,751)**

The movement in individual allowance for impairment losses on loans and advances to customers was the following:

	Group		**Bank**	
In RON thousand	**2017**	**2016**	**2017**	**2016**
Balance as at 1 January	(1,283,465)	(1,626,594)	(1,278,979)	(1,546,492)
Net impairment charges	(370,514)	(527,555)	(369,330)	(525,369)
Effect of discounting the current value	(85,226)	(41,455)	(85,226)	(41,455)
Impairment allowances on written off loans	749,075	966,275	749,075	887,741
Transfer of Impairment allowances from individual to collective	795	(70,134)	411	(69,400)
Net FX loss	(13,540)	15,998	(13,539)	15,996
Balance at 31 December	**(1,002,875)**	**(1,283,465)**	**(997,588)**	**(1,278,979)**

The effect of the change in provisions for the impairment of loans and advances to customers assessed collectively and for incurred but not reported losses was the following:

	Group		**Bank**	
In RON thousand	**2017**	**2016**	**2017**	**2016**
Balance as at 1 January	(905,596)	(1,094,100)	(890,772)	(1,085,994)
Net impairment charges	(64,769)	(495,787)	(46,719)	(487,754)
Effect of discounting the current value	(61,309)	(42,449)	(61,309)	(42,449)
Impairment allowances on written off loans	224,072	668,732	223,901	668,151
Transfer of Impairment allowances from individual to collective	(795)	70,134	(411)	69,400
Net FX loss	(5,897)	(12,126)	(5,899)	(12,126)
Balance at 31 December	**(814,294)**	**(905,596)**	**(781,209)**	**(890,772)**

22. Financial leasing receivables

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

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

In RON thousand	**2017**	**2016**
Lease related receivables with maturity below 1 year, gross	375,286	272,573
Lease related receivables with maturity between 1-5 years, gross	540,759	356,984
Total lease related receivables, gross	916,045	629,557
Future interest related to lease agreements	(76,193)	(51,110)
Total financial leasing receivables, net of future interest	839,852	578,447
Impairment allowances of financial leasing receivables	(54,522)	(54,804)
Total financial leasing receivables	**785,330**	**523,643**

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

The provision for financial leasing receivables can be further analyzed as follows:

In RON thousand	**2017**	**2016**
Balance at the beginning of the year	(54,804)	(66,007)
Net provision charges (Note 14)	(24,704)	(8,231)
Written – off financial leasing receivables	24,986	19,434
Balance at the end of the year	**(54,522)**	**(54,804)**

23. Investment securities

a) Financial assets available-for-sale

	Group		Bank	
In RON thousand	**2017**	**2016**	**2017**	**2016**
Financial assets available-for-sale				
Unlisted debt and other fixed income instruments:	***15,442,234***	***14,734,560***	***15,428,154***	***14,709,895***
Treasury securities issued by the Romanian Government, out of which:	9,070,223	8,670,006	9,056,143	8,645,341
- discount certificates	419,771	354,964	419,771	354,964
- coupon certificates (RON)	11,339	28,168	11,339	28,168
- Benchmark bonds (RON)	7,660,338	7,575,903	7,646,258	*7,551,238*
- Treasury certificates with coupon (EUR)	978,775	710,971	978,775	*710,971*
EURO bonds issued by the Romanian Government on external markets	*5,153,166*	4,873,574	*5,153,166*	*4,873,574*
USD bonds issued by the Romanian Government on external markets	*1,017,599*	1,059,144	*1,017,599*	*1,059,144*
Bonds, of which:	*201,246*	131,836	*201,246*	*131,836*
- issued by Bucharest Municipality	*60,264*	60,588	*60,264*	*60,588*
- issued by Alba Iulia Municipality	*388*	*439*	*388*	*439*
- issued by Black Sea	*8,286*	*9,052*	*8,286*	*9,052*
- issued by International Investment Bank	*105,118*	*33,283*	*105,118*	*33,283*
- issued by Transelectrica	*27,190*	*28,474*	*27,190*	*28,474*
Shares	***64,023***	***48,653***	***63,888***	***48,548***
Fund units	***243,355***	***168,802***	***469,315***	***320,288***
Investment certificates	***68,163***	***38,701***	***68,163***	***38,701***
Equity investments measured at cost, out of which:	***3,525***	***3,112***	***3,092***	***3,092***
Gross value	*3,533*	*3,120*	*3,092*	*3,092*
Impairment allowances	(8)	(8)	-	-
Total financial assets available-for-sale	**15,821,300**	**14,993,828**	**16,032,612**	**15,120,524**

Notes to the Consolidated and Separate Financial Statements

23. Investment securities *(continued)*

a) Financial assets available-for-sale *(continued)*

As at 31 December 2017, for these categories of securities, the Group holds equity instruments valued at cost under the form of participations in Transfond, Biroul de Credit, Swift Belgium, Casa Romana de Compensatii, Fondul de Compensare a Investitorilor, that could not be valued at fair value, due to the lack of recent public quotations. As at 31 December 2017, the investment at cost at Group level is of RON 3,525 thousand (2016: RON 3,112 thousand) and at Bank level RON 3,092 thousand (2016: RON 3,092 thousand).

There were no movement in the impairment adjustments related to participations during 2017 and 2016.

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

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

23. Investment securities *(continued)*

a) Financial assets available-for-sale *(continued)*

Analysis of the bonds held by the Group and the Bank as at 31 December 2016, classified as "Financial assets available-for-sale", depending on the issuer's rating:

	Group					Bank				
In RON thousand	*Bonds and treasury certificates issued by the Romanian Government*	*Municipal bonds*	*Bonds issued by other financial institutions*	*Bonds issued by non-financial institutions*	**Total**	*Bonds and treasury certificates issued by the Romanian Government*	*Municipal bonds*	*Bonds issued by other financial institutions*	*Bonds issued by non-financial institutions*	**Total**
A-	-	-	9,052	-	**9,052**	-	-	9,052	-	**9,052**
BB+	-	439	-	28,474	**28,913**	-	439	-	28,474	**28,913**
BBB	-	-	33,283	-	**33,283**	-	-	33,283	-	**33,283**
BBB-	14,602,724	60,588	-	-	**14,663,312**	14,578,059	60,588	-	-	**14,638,647**
Total	**14,602,724**	**61,027**	**42,335**	**28,474**	**14,734,560**	**14,578,059**	**61,027**	**42,335**	**28,474**	**14,709,895**

As at 31 December 2017 and 31 December 2016, the fund units classified by the Group and the Bank in the category of available-for-sale financial assets are not subject to rating, because there is no rating system in the investment fund industry.

As at 31 December 2017 and 31 December 2016, the Group and the Bank do not hold debt instruments classified as "Financial assets available for sale", overdue or impaired. Evolution of the securities in the "Financial assets available for sale" category:

	Group		Bank	
In RON thousand	**2017**	**2016**	**2017**	**2016**
As at 1 January	14,993,828	12,242,959	15,120,524	12,332,576
Acquisitions	11,203,068	26,008,147	11,216,420	26,027,482
Sales and repurchases	(10,126,397)	(22,809,401)	(10,101,484)	(22,800,362)
Coupon and amortization in P&L during the year (Note 8)	252,503	247,451	251,719	246,572
Coupon collected at term during the year	(548,339)	(567,431)	(547,748)	(566,565)
Gain/Loss from the measurement at fair value	3,023	(219,407)	49,269	(210,878)
Exchange rate differences	43,614	91,510	43,912	91,699
As at 31 December	**15,821,300**	**14,993,828**	**16,032,612**	**15,120,524**

23. Investment securities *(continued)*

a) Financial assets available-for-sale *(continued)*

As at 31 December 2017, out of the treasury securities held by the Group, the amount of RON 57,000 thousand (2016: RON 29,000 thousand) was pledged for current operations (RoCLEAR, SENT, MASTERCARD and VISA).

The treasury securities and bonds issued by the Romanian Government have maturities between 2018 and 2044.

As at 31 December 2017, the Bank concluded repo transactions with other financial institutions, having as supporting assets available-for-sale investment securities amounting to RON 258,435 thousand (2016: RON 1,483,035 thousand). The securities pledged under repo agreements may be sold or re-pledged by the counterparty. The Alba Iulia municipal bonds bear variable interest rate (Robid 6M + Robor 6M)/2 + 1.5% (31 December 2017: 2.5%; 31 December 2016: 1.5%). The bonds in RON issued by the Bucharest Municipality bear fixed interest rate of 2.80%, respectively of 3.58%. The Group also holds RON bonds issued by Transelectrica, with a fixed interest rate of 6.10%, USD bonds issued by Black Sea Trade and Development Bank, with a fixed interest rate of 4.87% and bonds issued by International Investment Bank in RON, with a fixed interest rate of 3.4% and a variable interest rate of ROBOR 3M+1.5% (31 December 2017: 3.62%) and in EUR, with a fixed interest rate of 1.593%.

Realized gains on the disposal of available-for-sale financial assets reclassified from other items of comprehensive income to profit or loss amounted to RON (3,206) thousand (2016: RON 401,691 thousand), with a related tax of RON -513 thousand for the Group and to RON (4,102) thousand (2016: RON 402,226 thousand), with a related tax of RON (656) thousand for the Bank.

b) Investment securities held-to-maturity

In 2017, the Group acquired and classified as “securities held-to-maturity” bonds in amount of RON 0 thousand (2016: RON 20,691).

	Group	
In RON thousand	**2017**	**2016**
Securities held-to-maturity	-	20,691
Total	**-**	**20,691**

Analysis of the Group’s securities held-to-maturity as at 31 December 2017 and 31 December 2016 depending on the issuer’s rating:

	Group	
In RON thousand	**2017**	**2016**
A	-	472
B+	-	473
BB	-	1,224
BB-	-	1,693
BB+	-	2,928
BBB	-	2,773
BBB-	-	10,168
BBB+	-	960
Total	**-**	**20,691**

24. Equity investments

As at 31 December 2017 the Bank had direct stakes in subsidiaries in amount of RON 156,631 thousand (2016: RON 136,671), thousand and the impairment allowance amounted to RON 0 thousand (2016: RON 0 thousand). The changes in impairment allowance for the Bank's investments:

In RON thousand	**2017**	**2016**
Balance as at 1 January	-	41,300
De-recognition of participation adjustment through assignment	-	(41,300)
Balance at 31 December	**-**	**-**

On 31 December 2017 the Bank has subsidiaries which directly and indirectly holdings are:

Entity	**Head Office**	**% of shares owned**	**Share Capital**	**Reserves**	**Profit/(loss) as at 31.12.2017**
BT Leasing Transilvania IFN S.A.	Cluj-Napoca. str. C-tin Brâncuşi nr.74-76., etj.1	100.00%	45,001	5,638	20,187
BT Capital Partners S.A.	Cluj-Napoca. str. C-tin Brâncuşi nr.74-76. parter	99.59%	15,426	452	1,820
BT Direct IFN S.A.	Cluj-Napoca, str. C-tin Brâncuşi nr.74-76, etj.3	100.00%	26,880	2,146	2,696
BT Building S.R.L.	Cluj-Napoca, str. G. Bariţiu nr.8	100.00%	40,448	410	(3,031)
BT Investments S.R.L.	Cluj-Napoca. Bd. Eroilor nr.36	100.00%	50,940	485	4,906
BT Asset Management SAI S.A.	Cluj-Napoca, str Emil Racoviţă, nr 22, etj.1	80.00%	7,166	14,265	17,361
BT Solution Agent de Asigurare S.R.L.	Cluj-Napoca, str. C-tin Brâncuşi nr.74-76, etj.1	99.95%	20	4	421
BT Safe Agent de Asigurare S.R.L.	Cluj-Napoca, str. C-tin Brâncuşi nr.74-76, etj.1	99.99%	77	15	588
BT Intermedieri Agent de Asigurare S.R.L.	Cluj-Napoca, str. C-tin Brâncuşi nr.74-76, etj.1	99.99%	507	101	2,392
BT Operational Leasing S.A.	Bucureşti. Sos. Bucureşti-Ploieşti nr.43	94.73%	3,494	702	1,818
BT Leasing Moldova S.R.L.	Rep. of Moldova, Chişinău. str. A.Puşkin nr.60	100.00%	4,649	-	2,075
BT Asiom Agent de Asigurare S.R.L.	Cluj-Napoca, str. C-tin Brâncuşi nr.74-76, etj.1	99.95%	20	4	724
BT Microfinanţare IFN S.A.	Bucuresti. Sos. Bucuresti-Ploiesti nr.43	100.00%	31,760	-	(752)
Transilvania Imagistica S.A.	Bucureşti. Şos. Bucureşti-Ploieşti nr.43	96.64%	1,000	-	(189)
Improvement Credit Collection S.R.L.	Cluj-Napoca, str. G. Bariţiu nr.1	100.00%	901	1,740	3,250
Sinteza S.A.	Oradea. Sos.Borsului nr.35	50.15%	9,917	678	(2,961)
Chimprod S.R.L.	Oradea. Sos.Borsului nr.35	50.03%	90	1,443	(53)
Total			**238,296**	**28,083**	**51,252**

25. Property and equipment and investment property

Group - In RON thousand ***Gross carrying amount***	Investment property	Land & buildings	Computers and equipment	Vehicles	Fixed assets in progress	Total
Balance as at 1 January 2016	**38,799**	**368,669**	**307,749**	**119,249**	**31,351**	**865,817**
Acquisitions of tangible assets and investment property	2	313	17,520	43,549	109,300	170,684
Balance of tangible assets through acquisition	-	31,169	19,555	386	7,281	58,391
Reclassification of inventories into investment property	-	2,086	-	127	-	2,213
Reclassification from investments in progress	-	20,559	57,335	30,046	(107,940)	-
Revaluation (impact on reserve)	-	64	177	1,148	-	1,389
Revaluation (impact on profit and loss statement)	87	(702)	-	-	-	(615)
Disposals	-	(13,896)	(47,613)	(13,097)	(2,530)	(77,136)
Reclassification of tangible assets into inventories for disposal purposes	-	-	-	(67)	-	(67)
Balance at 31 December 2016	**38,888**	**408,262**	**354,723**	**181,341**	**37,462**	**1,020,676**
Balance as at 1 January 2017	**38,888**	**408,262**	**354,723**	**181,341**	**37,462**	**1,020,676**
Acquisitions of tangible assets and investment property	29	781	40,055	49,985	143,951	234,801
Reclassification of inventories into investment property	823	(823)	-	-	-	-
Reclassification from investments in progress	-	24,655	59,203	42,861	(126,719)	-
Revaluation (impact on reserve)	-	1,159	201	648	-	2,008
Revaluation (impact on profit and loss statement)	-	(976)	-	-	-	(976)
Disposals	(8,648)	(44,121)	(33,736)	(19,292)	(8,671)	(114,468)
Reclassification of tangible assets into inventories for disposal purposes	-	(49,328)	(3,705)	(487)	-	(53,520)
Balance at 31 December 2017	**31,092**	**339,609**	**416,741**	**255,056**	**46,023**	**1,088,521**

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

Amortization and depreciation

***Group** - In RON thousand*	**Investment property**	**Land & buildings**	**Computers and equipment**	**Vehicles**	**Fixed assets in progress**	**Total**
Balance as at 1 January 2016	**-**	**159,268**	**208,341**	**45,942**	**-**	**413,551**
Charge for the year	-	13,953	29,142	21,939	-	65,034
Balance of depreciation related to acquisition	-	1,635	4,890	227	-	6,752
Accumulated depreciation of disposals	-	(11,919)	(39,865)	(9,355)	-	(61,139)
Amortization related to revaluation (impact on reserve)	-	33	-	-	-	33
Amortization related to revaluation (impact on profit and loss statement)	-	(96)	-	-	-	(96)
Balance of impairment related to acquisition	-	17,265	13,044	143	7,281	37,733
Provision for impairment (Note 14)	-	556	2,246	-	-	2,802
Reversal of provision for impairment (Note 14)	-	(13)	12	-	(2,727)	(2,728)
Balance at 31 December 2016	**-**	**180,682**	**217,810**	**58,896**	**4,554**	**461,942**
Balance as at 1 January 2017	**-**	**180,682**	**217,810**	**58,896**	**4,554**	**461,942**
Charge for the year	-	13,882	37,631	33,865	-	85,378
Accumulated depreciation of disposals	-	(35,704)	(31,534)	(8,265)	-	(75,503)
Amortization related to revaluation (impact on reserve)	-	293	-	-	-	293
Amortization related to revaluation (impact on profit and loss statement)	-	(93)	-	-	-	(93)
Depreciation of fixed assets reclassified for disposal purposes	-	(13,894)	(2,847)	(417)	-	(17,158)
Reversal of provision for impairment (Note 14)	-	-	-	(6)	-	(6)
Balance at 31 December 2017	**-**	**145,166**	**221,060**	**84,073**	**4,554**	**454,853**
Net carrying amount						
As at 1 January 2017	**38,888**	**227,580**	**136,913**	**122,445**	**32,908**	**558,734**
As at 31 December 2017	**31,092**	**194,443**	**195,681**	**170,983**	**41,469**	**633,668**

Notes to the Consolidated and Separate Financial Statements

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

Bank *- In RON thousand*	**Investment property**	**Land & buildings**	**Computers and equipment**	**Vehicles**	**Fixed assets in progress**	**Total**
Gross carrying amount						
Balance as at 1 January 2016	**4,956**	**361,918**	**295,228**	**24,733**	**29,398**	**716,233**
Acquisition of fixed assets	-	-	14,888	9	70,633	85,530
Reclassification of inventories into investment property	-	1,263	-	127	-	1,390
Reclassification from investments in progress	-	19,942	51,601	-	(71,543)	-
Revaluation (impact on reserves)	-	64	177	1,148	-	1,389
Revaluation (impact on profit and loss statement)	-	(702)	-	-	-	(702)
Disposals	-	(13,294)	(42,317)	(3,109)	(2,530)	(61,250)
Reclassification of fixed assets into inventories for disposal purposes	-	-	-	-	-	-
Balance at 31 December 2016	**4,956**	**369,191**	**319,577**	**22,908**	**25,958**	**742,590**
Balance as at 1 January 2017	**4,956**	**369,191**	**319,577**	**22,908**	**25,958**	**742,590**
Acquisition of fixed assets	-	761	39,595	329	101,511	142,196
Reclassification from investments in progress	-	24,655	58,859	457	(83,971)	-
Revaluation (impact on reserves)	-	1,159	201	648	-	2,008
Revaluation (impact on profit and loss statement)	-	(976)	-	-	-	(976)
Disposals	(3,534)	(38,404)	(33,368)	(1,575)	(8,640)	(85,521)
Reclassification of fixed assets into inventories for disposal purposes	-	(49,328)	(3,705)	(487)	-	(53,520)
Balance at 31 December 2017	**1,422**	**307,058**	**381,159**	**22,280**	**34,858**	**746,777**

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

Bank *- In RON thousand*	**Investment property**	**Land & buildings**	**Computers and equipment**	**Vehicles**	**Fixed assets in progress**	**Total**
Balance as at 1 January 2016	**-**	**158,222**	**201,846**	**19,089**	**-**	**379,157**
Charge for the year	-	13,860	27,752	2,711	-	44,323
Accumulated depreciation of disposals	-	(11,659)	(36,816)	(2,657)	-	(51,132)
Depreciation related to revaluation (impact on reserves)	-	33	-	-	-	33
Depreciation related to revaluation (impact on profit and loss statement)		(96)	-	-	-	(96)
Balance at 31 December 2016	**-**	**160,360**	**192,782**	**19,143**	**-**	**372,285**
Balance as at 1 January 2017	**-**	**160,360**	**192,782**	**19,143**	**-**	**372,285**
Charge for the year	-	13,777	35,350	2,577	-	51,704
Accumulated depreciation of disposals	-	(35,702)	(31,476)	(1,640)	-	(68,818)
Depreciation related to revaluation (impact on reserves)	-	293	-	-	-	293
Depreciation related to revaluation (impact on profit and loss statement)	-	(93)	-	-	-	(93)
Depreciation of fixed assets reclassified for disposal purposes	-	(12,979)	(2,847)	(417)	-	(16,243)
Balance at 31 December 2017	**-**	**125,656**	**193,809**	**19,663**	**-**	**339,128**
Net carrying amount						
As at 1 January 2017	**4,956**	**208,831**	**126,795**	**3,765**	**25,958**	**370,305**
As at 31 December 2017	**1,422**	**181,402**	**187,350**	**2,617**	**34,858**	**407,649**

Notes to the Consolidated and Separate Financial Statements

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

As at 31 December 2017, the Group included under fixed assets constructions and equipment acquired through financial lease, at a net carrying amount of RON 3,542 thousand (31 December 2016: RON 6,131 thousand) and intangible assets acquired through financial lease at a net carrying amount of RON 0 thousand (31 December 2016: RON 0 thousand); the Bank did not include under fixed assets the vehicles acquired through financial lease. As at 31 December 2017, the Group had pledged property, equipment or intangible assets of RON 1,467 thousand (31 December 2016: RON 2,204 thousand); the Bank did not have any pledged tangible or intangible assets. Property and equipment as at 31 December 2017 were revaluated by an independent evaluator. If the assets of the Group had been booked under the cost model, the recognized carrying amount would have been: land and buildings RON 175,450 thousand (2016: RON 196,268 thousand) for the Bank was RON 30,671 thousand(2016: RON 39,458 thousand), computers and equipment RON 195,407 thousand (2016: RON 136,592 thousand) and for the Bank was RON 170,292 thousand(2016: RON 121,287 thousand), fixed assets in progress RON 41,469 thousand (2016: 32,908 Ron thousand).
If the assets of the Bank had been booked under the cost model, the recognized carrying amount would have been: land and buildings RON 162,409 thousand (2016: RON 181,787 thousand) and for the Bank was RON 1,088 thousand(2016: RON 5,613 thousand), computers and equipment RON 187,076 thousand (2016: RON 126,474 thousand) and for the Bank was RON 1,926 thousand(2016: RON 2,607 thousand), fixed assets in progress RON 34,858 thousand (2016: RON 25,958 thousand).

26. Intangible assets (including goodwill)

In RON thousand	**Group**		**Bank**
Gross carrying amount	**Goodwill**	**Software**	**Software**
Balance as at 1 January 2016	**376**	**172,845**	**167,296**
Additions	-	42,469	36,108
Balance related to acquisition	2,398	638	-
Revaluation (impact on reserve)	-	427	427
Disposals	-	(6,896)	(6,553)
Balance at 31 December 2016	**2,774**	**209,483**	**197,278**
Balance as at 1 January 2017	**2,774**	**209,483**	**197,278**
Additions	-	85,976	85,429
Revaluation (impact on revaluation reserve)	-	530	530
Disposals	-	(7,682)	(7,672)
Balance at 31 December 2017	**2,774**	**288,307**	**275,565**
Accumulated amortization			
Balance as at 1 January 2016	-	**98,373**	**94,871**
Charge for the year	-	28,877	28,035
Disposals	-	(4,367)	(4,024)
Balance at 31 December 2016	**-**	**122,883**	**118,882**
Balance as at 1 January 2017	-	**122,883**	**118,882**
Charge for the year	-	39,646	38,402
Disposals	-	(7,477)	(7,480)
Balance at 31 December 2017	**-**	**155,052**	**149,804**
Net carrying amount			
As at 1 January 2017	**2,774**	**86,600**	**78,396**
As at 31 December 2017	**2,774**	**133,255**	**125,761**

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

Impairment testing for cash generating units included in the goodwill

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

As at 31 December 2017 the goodwill allocated by the Group to BT Leasing Transilvania IFN S.A. was of RON 376 thousand and the goodwill allocated to BT Capital Partners was of RON 2,398 thousand (2016: RON 376 thousand allocated to BT Leasing Transilvania IFN S.A. and RON 2,398 thousand allocated to BT Capital Partners).

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

If the intangible assets of the Group had been booked under the cost model, the recognized carrying amount would have been: RON 132,713 thousand (2016: RON 85,874 thousand) and of the Bank amounted to RON 125,219 thousand (31 December 2016: RON 77,760 Ron thousand).

27. Deferred tax assets and liabilities

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

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

Deferred tax assets/liabilities at Group level, as at 31 December 2016:

In RON thousand	1 January 2016	Recognized in profit and loss	Recognized in other items of comprehensive income	31 December 2016
Tax effect of temporary deductible /taxable differences (including tax losses carried forward), resulting from:				
Property and equipment and intangible assets	(4,417)	250	(287)	(4,454)
Financial assets at fair value through profit and loss and derivatives	64	-	-	64
Financial assets available for sale	(33,392)	101	35,127	1,836
Other assets	120	99	6	225
Loans and receivables	(14)	590	-	576
Provisions and other liabilities	7,920	4,092	-	12,012
Tax losses carried forward	143,465	224,880	-	368,345
Other	160	-	(48)	112
Deferred tax asset / (liability)	**113,906**	**230,012**	**34,798**	**378,716**
Recognition of deferred tax asset	154,132	229,701	1,392	385,225
Recognition of deferred tax liability	(40,226)	311	33,406	(6,509)
Deferred tax asset / (liability)	**113,906**	**230,012**	**34,798**	**378,716**

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

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

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

Deferred tax assets/liabilities at Bank level, as at 31 December 2016:

In RON thousand	**1 January 2016**	**Recognized in profit and loss**	**Recognized in other items of comprehensive income**	**31 December 2016**
Tax effect of temporary deductible /taxable differences (including tax losses carried forward), resulting from:				
Property and equipment and intangible assets	(4,417)	285	(286)	(4,418)
Financial assets available for sale	(35,796)	-	33,741	(2,055)
Other assets	114	105	6	225
Provisions and other liabilities	7,796	4,047	-	11,843
Tax losses carried forward	143,465	224,880	-	368,345
Deferred tax asset / (liability)	**111,162**	**229,317**	**33,461**	**373,940**
Recognition of deferred tax asset	151,375	229,032	6	380,413
Recognition of deferred tax liability	(40,213)	285	33,455	(6,473)
Deferred tax asset / (liability)	**111,162**	**229,317**	**33,461**	**373,940**

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

The tax rate used to calculate the current and deferred tax position at 31 December 2017 was 16% (2016: 16%).

Deferred tax is determined based on the liability method for the temporary differences between the fiscal base for the calculation of the tax on assets and liabilities and their book value.
The Bank recognized the deferred tax asset of RON 173,821 thousand as at as at 31 December 2017 (2016: RON 368,345 thousand), which is the equivalent of an unutilized fiscal loss in amount of RON 1,086,380 thousand (2016: RON 2,302,159 thousand).
The Bank's management estimates that sufficient taxable profit will be achieved from current financial-banking operations in order to recover the carried forward fiscal losses and to cover the deferred income tax asset until the financial year 2019.

Unutilized tax losses expire as follows:

In RON thousand	**2017**	**2016**
Tax loss carried forward at the beginning of the year	2,302,159	3,088,424
Tax loss utilized in the current year	(1,215,779)	(786,265)
Tax loss carried forward at the end of the year, which expires as follows:	**1,086,380**	**2,302,159**
31 December 2018	-	206,189
31 December 2019	-	576,989
31 December 2020	-	348,555
31 December 2021	71,660	155,706
31 December 2022	1,014,720	1,014,720

28. Other financial assets

In RON thousand	Group 2017	Group 2016	Bank 2017	Bank 2016
Amounts under settlement	109,121	80,151	109,133	75,623
Sundry debtors and advances for non-current assets	81,237	73,877	54,189	51,109
Instruments received for collection	45,072	41,394	45,072	41,394
Other financial assets	7,695	5,217	7,643	5,406
Impairment allowance for other financial assets	(8,808)	(6,488)	(4,124)	(3,379)
Total	**234,317**	**194,151**	**211,913**	**170,153**

As at 31 December 2017, out of RON 234,317 thousand (31 December 2016: RON 194,151 thousand), the Group's other impaired financial assets amounted to RON 9,729 thousand (31 December 2016: RON 9,246 thousand).
As at 31 December 2017, out of RON 211,913 thousand (31 December 2016: RON 170,153 thousand), the Bank's other impaired financial assets amounted to RON 4,156 thousand (31 December 2016: RON 5,675 thousand).

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

In RON thousand	Group 2017	Group 2016	Bank 2017	Bank 2016
Balance as at 1 January	(6,488)	(10,212)	(3,379)	(3,776)
Net impairment charge (Note 14)	(2,317)	3,313	(742)	(109)
Impairment allowance booked through acquisitions	-	(94)	-	-
Transfer to loan provisions	-	507	-	507
Exchange rate differences	(3)	(2)	(3)	(1)
Balance at 31 December	**(8,808)**	**(6,488)**	**(4,124)**	**(3,379)**

The quality analysis of other financial assets held by the Group as at 31 December 2017 and 31 December 2016 is detailed below:

Group 2017	Retail			Companies		
31 December 2017	**RON**	**CURRENCY**	**TOTAL**	**RON**	**CURRENCY**	**TOTAL**
Amounts under settlement	2,590	2,863	5,453	86,096	17,572	103,668
Sundry debtors and advances for fixed assets	4,326	2,290	6,616	46,593	28,028	74,621
Instruments received for collection	-	-	-	45,072	-	45,072
Other financial assets	-	-	-	3,355	4,340	7,695
Impairment allowance for other financial assets	(2,005)	(278)	(2,283)	(6,525)	-	(6,525)
Total	**4,911**	**4,875**	**9,786**	**174,591**	**49,940**	**224,531**

Group 2016	Retail			Companies		
31 December 2016	**RON**	**CURRENCY**	**TOTAL**	**RON**	**CURRENCY**	**TOTAL**
Amounts under settlement	2,596	2,786	5,382	70,007	4,762	74,769
Sundry debtors and advances for fixed assets	4,486	2,373	6,859	44,461	22,557	67,018
Instruments received for collection	-	-	-	41,394	-	41,394
Other financial assets	-	-	-	1,744	3,473	5,217
Impairment allowance for other financial assets	(1,313)	(275)	(1,588)	(4,900)	-	(4,900)
Total	**5,769**	**4,884**	**10,653**	**152,706**	**30,792**	**183,498**

28. Other financial assets *(continued)*

The quality analysis of other financial assets held by the Bank as at 31 December 2017 and 31 December 2016 is detailed below:

Bank 2017		**Retail**			**Companies**	
31 December 2017	**RON**	**CURRENCY**	**TOTAL**	**RON**	**CURRENCY**	**TOTAL**
Amounts under settlement	2,590	2,864	5,454	86,077	17,602	103,679
Sundry debtors and advances for non-current assets	4,011	2,290	6,301	21,570	26,318	47,888
Instruments received for collection	-	-	-	45,072	-	45,072
Other financial assets	-	-	-	3,303	4,340	7,643
Impairment allowance for other financial assets	(1,967)	(278)	(2,245)	(1,879)	-	(1,879)
Total	**4,634**	**4,876**	**9,510**	**154,143**	**48,260**	**202,403**

Bank 2016		**Retail**			**Companies**	
31 December 2016	**RON**	**CURRENCY**	**TOTAL**	**RON**	**CURRENCY**	**TOTAL**
Amounts under settlement	2,596	2,787	5,383	65,478	4,762	70,240
Sundry debtors and advances for non-current assets	4,247	2,375	6,622	27,086	17,401	44,487
Instruments received for collection	-	-	-	41,394	-	41,394
Other financial assets	-	-	-	1,933	3,473	5,406
Impairment allowance for other financial assets	(1,313)	(275)	(1,588)	(1,791)	-	(1,791)
Total	**5,530**	**4,887**	**10,417**	**134,100**	**25,636**	**159,736**

29. Other non-financial assets

	Group		**Bank**	
In RON thousand	**2017**	**2016**	**2017**	**2016**
Inventories and similar assets	115,208	105,503	88,140	77,905
Accrued expenses	37,989	28,690	35,740	26,091
VAT and other taxes to be received	6,227	9,188	1,157	796
Other non-financial assets	797	206	150	84
Impairment allowance for other non-financial assets	(24,180)	(30,690)	(16,673)	(20,402)
Total	**136,041**	**112,897**	**108,514**	**84,474**

As at 31 December 2017, the Group and the Bank included in the category of “Inventories and related items” tangible assets which were reclassified as fixed assets available-for-sale in amount of RON 20,419 thousand and which were close to the final stage of negotiation for sale.

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

In RON thousand	**Group**		**Bank**	
	2017	**2016**	**2017**	**2016**
Balance as at 1 January	**(30,690)**	**(31,689)**	**(20,402)**	**(25,483)**
Net impairment charge (Note 14)	6,510	820	3,729	4,902
Reclassification to property investments	-	179	-	179
Balance at 31 December	**(24,180)**	**(30,690)**	**(16,673)**	**(20,402)**

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

The inventories and related items of the Bank include assets acquired by debt enforcement or giving in payment and other assets available for sale, at a net value of RON 40,238 thousand, structured as follows: buildings RON 19,332 thousand, lands RON 20,906 thousand, equipment RON 0 thousand, vehicles RON 0 thousand and furniture RON 0 thousand (2016: RON 51,338 thousand net value, structured as follows: buildings RON 25,666 thousand, lands RON 25,654 thousand, equipment RON 0 thousand, vehicles RON 13 thousand and furniture RON 5 thousand).
The inventories and related items of the Group include purchased assets held for sale amounting to RON 49,118 thousand, structured as follows: buildings RON 20,346 thousand, lands RON 21,410 thousand, equipment RON 2,454 thousand, vehicles RON 4,908 thousand and furniture RON 0 thousand (2016: RON 57,909 thousand, structured as follows: buildings RON 27,073 thousand, lands RON 26,407 thousand, equipment RON 2,652 thousand, vehicles RON 1,773 thousand and furniture RON 5 thousand).

30. Deposits from banks

	Group		Bank	
In RON thousand	**2017**	**2016**	**2017**	**2016**
Sight deposits	75,480	152,118	75,480	152,118
Term deposits	52,466	95,150	52,466	95,150
Total	**127,946**	**247,268**	**127,946**	**247,268**

31. Deposits from customers

	Group		Bank	
In RON thousand	**2017**	**2016**	**2017**	**2016**
Current accounts	20,893,217	14,996,775	20,954,415	15,071,687
Sight deposits	637,615	504,227	637,615	504,227
Term deposits	26,951,200	25,688,116	27,059,188	25,786,124
Collateral deposits	450,163	492,357	447,983	489,735
Total	**48,932,195**	**41,681,475**	**49,099,201**	**41,851,773**

Deposits from customers can be also analysed as follows:

	Group		Bank	
In RON thousand	**2017**	**2016**	**2017**	**2016**
Retail customers	30,403,576	26,358,368	30,401,279	26,355,402
Company customers	18,528,619	15,323,107	18,697,922	15,496,371
Total	**48,932,195**	**41,681,475**	**49,099,201**	**41,851,773**

31. Deposits from customers *(continued)*

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

	Group		*Bank*	
Sector	**2017**	**2016**	**2017**	**2016**
Retail customers	62.15%	63.24%	61.93%	62.97%
Financial and insurance activities	6.43%	7.60%	6.66%	7.87%
Services	6.60%	5.11%	6.61%	5.20%
Trading	4.63%	4.29%	4.61%	4.27%
Manufacturing	3.16%	3.45%	3.15%	3.43%
Energy	2.72%	2.91%	2.71%	2.90%
Constructions	3.30%	2.91%	3.28%	2.89%
Transportation	2.33%	2.49%	2.33%	2.48%
Telecommunications	1.99%	1.76%	1.98%	1.75%
Agriculture	2.05%	1.64%	2.04%	1.63%
Mining	1.42%	1.32%	1.41%	1.31%
Education	0.86%	0.94%	0.86%	0.94%
Real estate	0.99%	0.84%	1.06%	0.84%
Healthcare	0.84%	0.71%	0.84%	0.71%
Other	0.30%	0.49%	0.30%	0.48%
Government institutions	0.21%	0.31%	0.21%	0.31%
Self-employed	0.02%	0.02%	0.02%	0.02%
Total	**100.00%**	**100.00%**	**100.00%**	**100.00%**

In RON thousand	*Group*		*Bank*	
Sector	**2017**	**2016**	**2017**	**2016**
Retail customers	30,403,576	26,358,368	30,401,279	26,355,402
Financial and insurance activities	3,145,002	3,165,752	3,270,545	3,293,675
Services	3,237,602	2,129,238	3,245,015	2,174,670
Trading	2,264,592	1,787,005	2,264,466	1,786,959
Manufacturing	1,544,727	1,436,117	1,544,959	1,436,117
Energy	1,332,496	1,212,400	1,332,496	1,212,400
Constructions	1,612,523	1,211,067	1,612,492	1,211,067
Transportation	1,138,163	1,036,991	1,138,038	1,036,969
Telecommunications	974,278	732,920	974,278	732,920
Agriculture	1,001,161	684,220	1,001,161	684,220
Mining	693,879	548,312	693,879	548,312
Education	422,127	391,410	422,127	391,410
Real estate	484,678	351,264	520,703	351,264
Healthcare	412,650	295,161	413,033	295,154
Other	148,568	202,272	148,557	202,256
Government institutions	105,112	128,938	105,112	128,938
Self-employed	11,061	10,040	11,061	10,040
Total	**48,932,195**	**41,681,475**	**49,099,201**	**41,851,773**

32. Loans from banks and other financial institutions

	Group		Bank	
In RON thousand	2017	2016	2017	2016
Loans from commercial banks	277,196	39,535	-	-
Romanian banks	277,196	*39,535*	-	-
Foreign banks	-	-	-	-
Loans from development banks	884,371	672,837	774,436	653,922
Repurchase agreements (repo transactions)	258,435	1,483,035	258,435	1,483,035
Other funds from financial institutions	67,020	109,504	67,020	109,504
Total	**1,487,022**	**2,304,911**	**1,099,891**	**2,246,461**

The interest rate range for loans from banks and financial institutions was as follows:

	2017		2016	
	Minimum	Maximum	Minimum	Maximum
EUR	0.32%	4.15%	Euribor 3m+1.90%	0.818%
RON	0.00%	Robor 3m+1.25%	0.00%	0.60%
USD	-	-	Libor 6m+0.51%	0.40%

At 31 December 2017 and 31 December 2016 the Bank and the Group complied with the financial indicators stipulated in the loan agreements signed with creditors.

The table below summarizes the underlying securities of repo agreements:

RON thousand	Group				Bank			
	2017		2016		2017		2016	
	Carrying amount		Carrying amount		Carrying amount		Carrying amount	
	Transferred assets	Associated liabilities	Transferred assets	Associated liabilities	Transferred assets	Associated liabilities	Transferred assets	Associated liabilities
Financial assets available-for-sale	258,540	258,435	1,488,289	1,483,035	258,540	258,435	1,488,289	1,483,035
Total	**258,540**	**248,435**	**1,488,289**	**1,483,035**	**258,540**	**258,435**	**1,488,289**	**1,483,035**

33. Other subordinated liabilities

	Group		Bank	
In RON thousand	2017	2016	2017	2016
Loans from development banks and financial institutions	367,139	377,852	367,139	377,852
Convertible Bonds	47,439	46,259	47,439	46,259
Total	**414,578**	**424,111**	**414,578**	**424,111**

Subordinated debt includes subordinated loans from development banks and financial institutions, as well as convertible bonds.
Subordinated loans include the following:
- loan in amount of EUR 15 million, equivalent of LEI 69,896 thousand (2016: RON 68,117 thousand), contracted in 2013 at 6m Euribor + 6.2%, due in 2018;

33. Other subordinated liabilities *(continued)*

- loan in amount of EUR 25 million, equivalent of LEI 116,493 thousand (2016: RON 113,528 thousand), contracted in 2013 at 6m Euribor + 6.2%, due 2023;
- loan in amount of EUR 5 million, equivalent of LEI 23,298 thousand (2016: RON 22,706 thousand), contracted in 2012 at 6m Euribor + 6.50%, due 2018;
- loan in amount of USD 40 million, equivalent of LEI 186,388 thousand (2016: RON 172,132 thousand) contracted in 2014 to 6m Libor + 5.80%, due 2023.

The Bank issued EUR 30 million convertible bonds (RON 139,791 thousand equivalent) during 2013, bearing a coupon of EURIBOR 6M+6.25% interest and due in 2020. The outstanding bonds include the option of the holder to convert them into shares. During 2014, the Bank converted bonds amounting to EUR 20,072,238 (88,318,847 RON equivalent) as follows: RON 49,444,546 share capital increase and RON 38,873,301 share premium. During 2015, the Bank did not convert bonds.

During 2016, the Bank converted bonds amounting to EUR 23,004 (101,962 RON equivalent) as follows: RON 44,113 share capital increase and RON 57,849 share premium.

During 2017, the Bank converted bonds amounting to EUR 2,122 (9,683 RON equivalent) as follows: RON 3,483 share capital increase and RON 6,200 share premium.

The value of convertible bonds as at 31.12.2017 was EUR 9,902,636 , equivalent of RON 46,143 thousand (2016: EUR 9,904,758 , equivalent of RON 44,979 thousand).

Accrued interest on subordinated debt amounts to RON 1,792 thousand (2016: RON 1,371 thousand) and on bonds amounts to RON 1,296 thousand (2016: RON 1,280 thousand).

34. Provisions for other risks and loan commitments

The following items are included under Provisions for other risks and loan commitments:

	Group		Bank	
In RON thousand	**2017**	**2016**	**2017**	**2016**
Provisions for loan commitments	65,740	45,230	65,744	45,242
Provisions for employee benefits as compensated absences	14,518	6,497	13,489	5,000
Provisions for other employee benefits	28,239	25,989	24,859	24,491
Provisions for other risks and charges (*)	274,352	436,866	269,025	432,222
Total	**382,849**	**514,582**	**373,117**	**506,955**

(*)Provisions for risks and charges primarily include provisions for litigation and other risks taken after the merger of Volksbank Romania SA.

35. Other financial liabilities

	Group		Bank	
In RON thousand	**2017**	**2016**	**2017**	**2016**
Amounts under settlement	1,047,582	366,267	1,045,318	362,833
Sundry creditors	98,025	55,205	59,828	31,262
Liabilities related to leasing (i)	382	1,651	-	-
Other financial liabilities	38,221	35,905	37,792	36,116
Total	**1,184,210**	**459,028**	**1,142,938**	**430,211**

35. Other financial liabilities *(continued)*

(i) Future minimum lease payments under finance leases and the present value of the net minimum lease payments are as follows:

In RON thousand	2017	2016
Minimum lease payments		
2017	-	393
2018	388	698
2019	-	298
2020	-	298
2021	-	83
Total minimum lease payments	**388**	**1,770**
Less future interest	(6)	(119)
Current value of minimum lease payments	**382**	**1,651**

36. Other non-financial liabilities

	Group		Bank	
In RON thousand	**2017**	**2016**	**2017**	**2016**
Amounts under settlement	38,022	41,288	149	412
Other taxes payable	24,424	22,911	22,645	20,687
Other non-financial liabilities	41,582	47,670	39,631	46,688
Total	**104,028**	**111,869**	**62,425**	**67,787**

37. Share capital

The statutory share capital of the Bank at 31 December 2017, as recorded with the Trade Register was represented by 4,341,439,404 ordinary shares with a nominal value of RON 1 each (at 31 December 2016: 3,646,047,792 shares with a nominal value of RON 1 each). The shareholders structure of the Bank is presented in Note 1.

The share capital was increased by incorporating statutory profit reserves (in amount of RON 695,388,129 and by conversion of bonds (in amount of RON 3,483) and was properly recorded with the Trade Register in 2017. The bond conversion was accomplished in December 2017. A number of 3,537 bonds in amount of RON 9,683 were converted at a conversion price of 2.780, resulting a number of 3,483 shares. The difference of RON 6,200 was booked as issue premium.

	Group		Bank	
In RON thousand	**2017**	**2016**	**2017**	**2016**
Paid share capital recorded with the Trade Register	4,431,439	3,646,048	4,341,439	3,646,048
Share capital adjustment to inflation	89,899	89,899	89,899	89,899
Share capital adjustment with unrealized revaluation reserves of tangible assets	(3,398)	(3,398)	(3,398)	(3,398)
Total	**4,427,940**	**3,732,549**	**4,427,940**	**3,732,549**

38. Treasury shares

As at 31 December 2017 and 31 December 2016, repurchased own shares were structured as follows:

In RON thousand	Group		Bank	
	2017	**2016**	**2017**	**2016**
As at 1 January	(29,993)	(11,806)	(16,546)	-
Repurchase of own shares	(65,234)	(16,546)	(65,234)	(16,546)
Share revaluation	5,626	-	5,626	-
Share-based payments	44,014	-	44,014	-
Free shares	(1,840)	(1,641)	-	-
Total Own shares	**(47,427)**	**(29,993)**	**(32,140)**	**(16,546)**

39. Retained earnings

As at 31 December 2017 and 31 December 2016, retained earnings were structured as follows:

	Group		Bank	
In RON thousand	**2017**	**2016**	**2017**	**2016**
As at 1 January	1,954,073	2,523,109	1,779,244	2,389,102
Profit for 2016	1,239,452	1,272,422	1,185,979	1,228,440
Distribution of profit to statutory reserves	(70,426)	(51,473)	(68,925)	(49,956)
Share capital increase from the previous year profit	(695,388)	(620,000)	(695,388)	(620,000)
Profit allocated for dividend payments	(219,000)	(1,200,000)	(219,000)	(1,200,000)
Realization of revaluation surplus	12,926	1,741	8,658	1,687
Fund allocation for the payment of shares to the employees	41,307	30,000	41,307	30,000
Distribution of own shares to the employees	(49,640)	-	(49,640)	-
Conversion of retained earnings	(219)	231	(349)	(29)
Other (consolidation, corrections of retained earnings, modification of the percentage of funds)	(10,321)	(1,957)	-	-
Total retained earnings	**2,202,764**	**1,954,073**	**1,981,886**	**1,779,244**

40. Reserves from the revaluation of tangible and intangible assets

As at 31 December 2017 and 31 December 2016, the reserves from the revaluation of tangible and intangible assets consisted in:

	Group		Bank	
In RON thousand	**2017**	**2016**	**2017**	**2016**
As at 1 January	26,227	26,470	27,188	27,377
Increase from fixed asset revaluation	2,245	1,783	2,245	1,783
Deferred tax revaluation	(359)	(285)	(359)	(285)
Change in reserves as a result of fixed asset disposal	2,337	-	-	-
Retained earnings from the realization of revaluation reserves	(12,926)	(1,741)	(8,658)	(1,687)
Total Revaluation reserves	**17,524**	**26,227**	**20,416**	**27,188**

41. Reserves for financial assets available-for-sale

As at 31 December 2017 and 31 December 2016, reserves for financial assets available-for-sale consisted in:

	Group		Bank	
In RON thousand	**2017**	**2016**	**2017**	**2016**
As at 1 January	(8,791)	175,511	10,790	187,928
Fair value loss / profit recognized in equity, net of tax, on available-for-sale financial assets	3,025	(219,403)	49,269	(210,878)
Tax	(481)	35,101	(7,883)	33,740
Total reserves for financial assets availble-for-sale	**(6,247)**	**(8,791)**	**52,176**	**10,790**

42. Other reserves

As at 31 December 2017 and 31 December 2016, other reserves included:

	Group		Bank	
In RON thousand	**2017**	**2016**	**2017**	**2016**
General banking risks (i)	77,893	77,893	77,893	77,893
Statutory reserves (ii)	424,594	354,168	413,521	344,596
Total	**502,487**	**432,061**	**491,414**	**422,489**

Statutory reserves (ii)	Group		Bank	
In RON thousand	**2017**	**2016**	**2017**	**2016**
As at 1 January	354,168	302,696	344,596	294,640
Profit distribution	70,426	51,472	68,925	49,956
Total	**424,594**	**354,168**	**413,521**	**344,596**

(i) The general banking risk reserve includes amounts set aside as profit reserves for future losses and other unforeseen risks or contingencies, in accordance with local banking regulations. They are separately disclosed as appropriations of profit. The general banking risk reserve is appropriated from the statutory gross profit at the rate of 1% on the balance of the assets carrying specific banking risks. The general banking risk reserve was set up, starting with financial year 2004 until the end of financial year 2006.

(ii) Statutory reserves represent accumulated transfers from retained earnings in accordance with the local banking regulations that require that 5% of the Bank's and the subsidiaries' net profit must be transferred to a non-distributable reserve account until the reserve reaches 20% of the Bank's and the subsidiaries' share capital.

The legal reserves are not distributable to shareholders.

Notes to the Consolidated and Separate Financial Statements

43. Related-party transactions *(continued)*

Entities are considered to be related parties if one of them has the capacity to control the other or to exercise significant influence on the other entity's management process related to financial or operational decisions.

The Group and the Bank are engaged in transactions with related parties, shareholders and key management personnel. All these transactions were carried out under conditions similar to those applicable to third party agreements, in terms of interest rates and collateral clauses. The transactions /balances with subsidiary entities were eliminated from the scope of consolidation.

Transactions with other related parties include transactions with the major shareholders, family members of the key management personnel and companies where they are shareholders, and pursuing a relationship with the Bank.

The transactions /balances with subsidiary entities are presented below:

		2017			**2016**	
Group - RON thousand	**Key management personnel**	**Other related-parties**	**Total**	**Key management personnel**	**Other related-parties**	**Total**
Assets						
Granted loans	20,180	48,166	**68,346**	17,958	16,471	**34,429**
Liabilities						
Deposits from customers	26,535	114,115	**140,650**	26,243	152,097	**178,340**
Loans from financial institutions	-	184,802	**184,802**	-	159,225	**159,225**
Subordinated loans	-	156,682	**156,682**	-	172,989	**172,989**
Debt securities	-	21,001	**21,001**	-	20,474	**20,474**
Commitments						
Loan commitments and financial guarantees given	2,841	48,151	**50,992**	2,473	10,646	**13,119**
Notional value of exchange operations	12,331	19,639	**31,970**	20,011	25,909	**45,920**
Profit and loss account						
Interest income	569	1,433	**2,002**	547	939	**1,486**
Interest expense	124	17,507	**17,631**	121	19,876	**19,997**
Fee and commission income	10	138	**148**	9	265	**274**

Notes to the Consolidated and Separate Financial Statements

43. Related-party transactions *(continued)*

Bank - *In RON thousand*	**2017**				**2016**			
	Subsidiaries	**Key management personnel**	**Other related-parties**	**Total**	**Subsidiaries**	**Key management**	**Other related-parties**	**Total**
Assets								
Granted loans	744,935	17,167	47,704	**809,806**	649,758	15,742	16,356	**681,856**
Equity investments	318,925	-	-	**318,925**	311,980	-	-	**311,980**
Other assets	1,827	-	-	**1,827**	2,543	-	-	**2,543**
Liabilities								
Deposits from customers	170,621	22,870	86,308	**279,799**	173,400	21,067	147,529	**341,996**
Loans from financial institutions	-	-	74,868	**74,868**	-	-	140,316	**140,316**
Subordinated loans	-	-	156,682	**156,682**	-	-	172,989	**172,989**
Debt securities	-	-	21,001	**21,001**	-	-	20,474	**20,474**
Other debts	1,130	-	-	**1,130**	1,380	-	-	**1,380**
Commitments								
Loan commitments and financial guarantees given	393,364	2,481	48,094	**443,939**	182,612	2,159	10,578	**195,349**
Loan commitments and financial guarantees received	33,244	-	-	**33,244**	28,231	-	-	**28,231**
Notional value of exchange operations	93,540	9,023	15,099	**117,662**	124,382	17,460	25,301	**167,143**
Profit and loss account								
Interest income	18,512	476	1,426	**20,414**	12,387	489	919	**13,795**
Interest expense	428	111	16,625	**17,164**	278	100	18,725	**19,103**
Fee and commission income	6,287	7	124	**6,418**	3,316	6	257	**3,579**
Fee and commission expense	9,044	-	-	**9,044**	10,180	-	-	**10,180**
Expenses of losses from the de-recognition of financial assets and liabilities at fair value through profit and loss	18	-	-	**18**	622	-	-	**622**
Dividend income	38,033	-	-	**38,033**	5,466	-	-	**5,466**
Other income	6,006	-	-	**6,006**	5,441	-	-	**5,441**
Other expenses	7,181	-	-	**7,181**	8,180	-	-	**8,180**

43. Related-party transactions *(continued)*

Transactions with key management personnel

During 2017, the expenses related to the salaries of the members of the Board of Directors and of the Executive Management of the Group amounted to RON 16,654 thousand (2016: RON 14,321 thousand) and of the Bank amounted to RON 10,306 thousand (31 December 2016: RON 9,246 thousand).

Compensation for the key Group personnel:

	2017			2016		
	Total	**Out of which social contribution**	**Out of which employer contributions to Pilon III**	**Total**	**Out of which social contribution**	**Out of which employer contributions to Pilon III**
RON Thousand						
Short term employee benefits	30,982	2,905	37	26,809	1,179	37
Share based payments	23,003	-	-	-	-	-
Total compensations and benefits	**53,985**	**2,905**	**37**	**26,809**	**1,179**	**37**

Compensation for the key Bank personnel:

	2017			2016		
RON Thousand	**Total**	**Out of which social contribution**	**Out of which employer contributions to Pilon III**	**Total**	**Out of which social contribution**	**Out of which employer contributions to Pilon III**
Short term employee benefits	24,758	2,310	36	22,481	875	37
Share based payments	22,492	-	-	-	-	-
Total compensations and benefits	**47,250**	**2,310**	**36**	**22,481**	**875**	**37**

44. Commitments and contingencies

At any time the Group and the Bank have outstanding commitments to extend loans. These commitments are in the form of approved limits for credit cards and overdraft facilities. Outstanding loan commitments have a commitment period that does not extend beyond the normal underwriting and settlement period of one month to one year.

The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to one year. Maturities are not concentrated in a specific period.

The contractual amounts of commitments and contingent liabilities are set out in the following table by categories. The amounts reflected in the table under commitments are presented based on the assumption that they have been fully granted.

44. Commitments and contingencies *(continued)*

The amounts reflected in the table as guarantees and letters of credit represent the maximum accounting loss that would be recognized at the reporting date if counterparties completely failed to meet the contractual terms and conditions.

	Group		Bank	
In RON thousand	**2017**	**2016**	**2017**	**2016**
Guarantees issued	2,071,660	1,750,899	2,074,430	1,758,712
Loan commitments	5,967,388	5,235,076	6,323,656	5,376,770
Total	**8,039,048**	**6,985,975**	**8,398,086**	**7,135,482**

The provisions for loan commitments to customers were in amount of RON 65,740 thousand, at Group level (2016: RON 45,230 thousand); the Bank booked provisions in amount of RON 65,744 thousand (2016: RON 45,242 thousand).

Forward agreements represent contractual arrangements to buy or sell a certain financial instrument, at a certain price and at a certain future date.

Outstanding currency transactions at 31 December 2017 were:

Forward transactions					
Transactions with corporate clients:					
Purchases	8,152,556	RON	equivalent	2,037,037	USD
Purchases	514,585	RON	equivalent	111,331	EUR
Purchases	2,400,000	EUR	equivalent	11,147,840	RON
Purchases	17,922,975	RON	equivalent	3,838,317	EUR
Purchases	3,519,890	RON	equivalent	900,000	USD
Transactions with banks:					
Purchases	225,913,137	RON	equivalent	49,000,000	EUR
Purchases	1,350,000	USD	equivalent	5,356,200	RON
Purchases	42,425,143	EUR	equivalent	52,920,689	CHF
Purchases	58,181,600	RON	equivalent	12,500,000	EUR
Purchases	11,550,000	EUR	equivalent	53,738,550	RON
Purchases	3,000,000	USD	equivalent	11,676,800	RON
Purchases	2,696,337	USD	equivalent	2,000,000	GBP

The Group and the Bank rented both property and movable assets to third parties, by means of operational lease agreements.

The minimum amounts that the Group and the Bank have to collect as a lessor in the operational lease agreements without cancellation clauses are the following:

	Group		Bank	
	2017	**2016**	**2017**	**2016**
< 1 year	56,721	37,913	1,964	1,767
1 - 5 years	99,772	76,918	2,866	4,411
> 5 years	105	-	391	261
Total	**156,598**	**114,831**	**5,221**	**6,439**

44. Commitments and contingencies *(continued)*

The minimum amounts that the Group and the Bank have to pay as a lessee in the rental and operational lease agreements without cancellation clauses are the following:

	Group		Bank	
	2017	**2016**	**2017**	**2016**
< 1 year	83,933	78,223	88,285	83,774
1 - 5 years	194,430	183,673	197,509	189,285
> 5 years	34,755	32,777	34,649	30,990
Total	**313,118**	**294,673**	**320,443**	**304,049**

45. Earnings per share

The calculation of basic earnings per share was based on net consolidated profit attributable to ordinary shareholders of the parent (the Bank) of RON 1,239,452 thousand (as at 31 December 2016: RON 1,272,422 thousand) and on the weighted average of the ordinary shares outstanding during the year de 4,317,477,483 (31 December 2016 recalculated: 4,340,526,026 shares).

The diluted earning per share takes into consideration the adjusted consolidated net profit of RON 1,242,204 thousand (as at 31 December 2016: RON 1,275,217 thousand) attributable to the ordinary shareholders of the parent company and the weighted average number of outstanding diluted ordinary shares. The adjusted consolidated net profit was determined by adjusting the base profit with the interest paid on bonds in 2017, in amount of RON de 2,752 thousand (31 December 2016: RON 2,795 thousand). The weighted average number of diluted shares was determined as the sum of the weighted average number of ordinary shares and the number of shares which would have been issued upon the conversion of all potential dilutive shares into ordinary shares.
The weighted average of diluted shares outstanding as at 31 December 2017 was determined as a ratio between the outstanding bonds in amount of RON 46,143,312 and the conversion price of 2.780, thus resulting a number of 16,598,314 shares (31 December 2016: 18,580,013 shares)

	Group	
	2017	**2016**
Ordinary shares issued as at 1 January	3,646,047,792	3,026,003,679
The impact of shares issued as of 1 January	695,388,387	619,134,218
The impact of the shares repurchased during the year	(23,958,496)	
The retroactive adjustment of the weighted average number of outstanding shares as at 31 December 2017	-	695,388,129
Weighted average number of shares as at 31 December	4,317,477,683	4,340,526,026
The number of shares that may be issued upon the conversion of bonds into shares	16,598,314	18,580,013
Weighted average number of diluted shares as at 31 December	4,334,075,996	4,359,106,039

46. Restatement of comparative figures of 2016

In accordance with IAS 1 “Presentation of Financial Statements”, if an entity has made a restatement, it is required to submit the reclassification of comparative values of the previous year. These modifications were operated in response to the revaluations made by the management of the Group and of the Bank, in order to present them as clearly as possible.

The Bank's management has taken into account the nature of the abovementioned restatements, and, in particular, the fact that it is limited to the reclassification of financial position items, which have no impact on total assets, total liabilities and shareholders’ equity, as well as the reclassification of cash flow and own funds items.

When necessary, comparative figures have been reclassified in order to be in line with the changes from the current period presentation. These changes were made in order for the Group and the Bank to submit the presentation of its consolidated and separate financial position for more transparency.

In order to facilitate the understanding of these financial statements, the table below lists the reported figures, reclassifications and adjusted values in the consolidated and separate statement of financial position, the consolidated and separate statement of cash flows and the consolidated and separate statement of equity.

i) The restatement of the comparative figures of the Consolidated and separate statement of financial position is presented below:

In RON thousand - **31 December 2016**	**Group**			**Bank**		
Description	**Reported statement of financial position**	**Reclassification**	**Adjusted statement of financial position**	**Reported statement of financial position**	**Reclassification**	**Adjusted statement of financial position**
Assets:						
a) Financial assets at fair value through profit and loss	163,520	(7,911)	155,609	59,890	(7,911)	51,979
b) Derivatives	-	7,911	7,911	-	7,911	7,911
TOTAL ASSETS	**51,944,224**	**-**	**51,944,224**	**51,769,601**	**-**	**51,769,601**
Liabilities:						
(c) Financial liabilities held for trading	-	10,947	10,947	-	10,947	10,947
(d) Other financial liabilities	469,975	(10,947)	459,028	441,158	(10,947)	430,211
TOTAL LIABILITIES	**45,791,517**	**-**	**45,791,517**	**45,785,513**	**-**	**45,785,513**

In 2017, the Bank and the Group have made the following reclassifications which impacted the comparative figures of the financial position of 2016:

- In the ***Assets*** category*:* Detailed presentation in separate fields of the derivative instruments from the position “Financial assets at fair value through profit or loss”(a) to the position “Derivative instruments”(b);
- In the ***Liabilities*** category: Detailed presentation in separate fields from the position “Other financial liabilities” (d) to the position “Other financial liabilities held-for-trading” (c)

Notes to the Consolidated and Separate Financial Statements

46. Restatement of comparative figures of 2016 *(continued)*

ii) The restatement of the comparative figures in the statement of profit and loss for the year 2016 is presented below:

RON thousand - 31 December 2016	Group			Bank		
Description	**Reported profit and loss account**	**Adjustments**	**Adjusted profit and loss account**	**Reported profit and loss account**	**Adjustments**	**Adjusted profit and loss account**
Interest income (a)	2,027,555	11	2,027,566	1,971,218	11	1,971,229
Interest expenses (b)	(263,522)	(11)	(263,533)	(260,484)	(11)	(260,495)
Other operating income (c)	170,051	(34,135)	135,916	90,268	(18,685)	71,583
Operating income	**3,006,637**	**(34,135)**	**2,972,502**	**2,823,392**	**(18,685)**	**2,804,707**
Other operating expenses(d)	(529,984)	34,135	(495,849)	(466,201)	18,685	(447,516)
Operating expenses	**(1,947,800)**	**34,135**	**(1,913,665)**	**(1,824,269)**	**18,685**	**(1,805,584)**

In 2017, the Bank and the Group have made the following reclassifications which impacted the comparative figures of the Statement of profit and loss of 2016:

1. In the category **“Interest income”:**
   The negative interest related to reverse-repo transactions with financial institutions was classified under (a) “Interest income” instead of (b) “Interest expense”;
2. In the category **“Interest expenses”:**
   The negative interest related to reverse-repo transactions with financial institutions was classified under (a) “Interest income” instead of (b) “Interest expense”;
3. In the category **“Other income”:**
   The incomes/expenses resulting from the sale of available-for-sale fixed assets, as well as from the sale of goods subject to debt enforcement or giving in payment were booked as profit or loss under “Other expenses" (c) / “Other income” (d), depending on the result;
4. In the category **“Other expenses”**
   The incomes/expenses resulting from the sale of available-for-sale fixed assets, as well as from the sale of goods subject to debt enforcement or giving in payment were booked as profit or loss under “Other expenses" (c) / “Other income” (d), depending on the result.

46. Restatement of comparative figures of 2016 *(continued)*

iii) The restatement of the comparative figures of the Consolidated and separate statement of cash flows is presented below:

RON thousand - **31 December 2016**		**Group**			**Bank**	
Description	**Reported statement of cash flows**	**Reclassification / Adjustments**	**Adjusted statement of cash flows**	**Reported statement of cash flows**	**Reclassification / Adjustments**	**Adjusted statement of cash flows**
Profit for the year	**1,277,013**	**-**	**1,277,013**	**1,228,440**	**-**	**1,228,440**
Adjustments for:						
Interest income	(2,027,555)	(11)	(2,027,566)	(1,971,218)	(11)	(1,971,229)
Interest expenses	263,522	11	263,533	260,484	11	260,495
Income tax paid/received	1,711	(1,711)	-	8,714	(8,714)	-
Other adjustments	219,731	(80,414)	139,317	138,294	(73,057)	65,237
Net profit adjusted with non-monetary elements	**404,398**	**(82,125)**	**322,273**	**298,600**	**(81,771)**	**216,829**
Cash flow from / (used in) investment activities						
Change in investment securities	(2,971,807)	2,971,807	-	(2,992,344)	2,992,344	-
Change in financial assets at fair value through profit or loss	(1,968)	746	(1,222)	(3,015)	746	(2,269)
Modification of derivative instruments	-	(746)	(746)	-	(746)	(746)
Modification of held-for-trading financial liabilities	-	5,321	5,321	-	5,321	5,321
Change in other financial liabilities	138,600	(5,321)	133,279	117,924	(5,321)	112,603
Income tax paid/received	-	1,711	1,711	-	8,714	8,714
Repurchase receivables	-	1,203,894	1,203,894	-	1,203,894	1,203,894
Interests cashed in	2,120,088	(241,034)	1,879,054	2,089,319	(240,078)	1,849,241
Interests paid	(297,419)	40,370	(257,049)	(294,027)	36,778	(257,249)
Net cash flow used in investment activities	**(795,656)**	**3,894,623**	**3,098,967**	**(929,911)**	**3,919,881**	**2,989,970**
Cash flow from / (used in) investment activities						
Acquisitions of investment securities	-	(26,008,147)	(26,008,147)	-	(26,027,482)	(26,027,482)
Sells of investment securities	-	22,809,401	22,809,401	-	22,800,362	22,800,362
Interests cashed in	-	567,431	567,431	-	566,565	566,565
Net cash flow used in investment activities	**(197,017)**	**(2,631,315)**	**(2,828,332)**	**(152,471)**	**(2,660,555)**	**(2,813,026)**

46. Restatement of comparative figures of 2016 *(continued)*

iii) The restatement of the comparative figures of the Consolidated and separate statement of cash flows is presented below:

RON thousand **- 31 December 2016**	**Group**			**Bank**		
Description	**Reported statement of cash flows**	**Reclassification / Adjustments**	**Adjusted statement of cash flows**	**Reported statement of cash flows**	**Reclassification / Adjustments**	**Adjusted statement of cash flows**
Cash flow used in financing activities						
Gross proceeds from loans from banks and other financial institutions	14,461,259	(14,224,634)	236,625	14,456,684	(14,255,000)	231,684
Gross payments from loans from banks and other financial institutions	(13,246,032)	12,975,179	(270,853)	(13,154,836)	12,975,935	(178,901)
Gross payments from subordinated liabilities	(26,528)	26,528	-	(26,528)	26,528	-
Interests paid	-	(40,381)	(40,381)	-	(36,789)	(36,789)
Net cash flow used in financing activities	**26,496**	**(1,263,308)**	**(1,236,812)**	**113,117**	**(1,259,326)**	**(1,146,209)**
The impact of exchange rate variations on cash and cash equivalents	-	28,909	28,909	-	28,950	28,950
Net increase/decrease in cash and cash equivalents	(966,177)	(28,909)	(995,086)	(969,265)	(28,950)	(998,215)
Cash and cash equivalents as at December	**7,641,059**	**-**	**7,641,059**	**7,627,754**	**-**	**7,627,754**

In 2017, the Group and the Bank made the following reclassifications with impact on the comparative figures of the Consolidated and Individual Cash Flow Statement for the year 2016:

- Presentation of the interest received and paid as part of the cash flow from operating, investment and financing activity;
- Separation of cash flows related to derivative instruments, in accordance with the changes in the financial position;
- Separation of cash flows related to held-for-trading liabilities, in accordance with the changes in the financial position;
- Reclassification of the changes in securities from cash flows related to the operating activity to cash flows related to the investment activity;
- Separation of cash flows related to repurchase receivables from the investment activity to the operating activity;
- Recalculation of the amounts cashed and paid on loans in 2016.

46. Restatement of comparative figures of 2016 *(continued)*

iv) The restatement of the comparative figures of own funds for the Group and for the Bank after the approval of dividend distribution by the General Meeting of Shareholders dated 26 April 2017 is presented below:

RON Thousand - **31 December 2016**	**Group**			**Bank**		
Description	**Reported own funds**	**Adjustments**	**Adjusted own funds**	**Reported own funds**	**Adjustments**	**Adjusted own funds**
Tier 1 capital	5,525,452	(219,000)	5,306,452	5,398,562	(219,000)	5,179,562
Tier 2 capital	350,191	-	350,191	350,191	-	350,191
Total own funds	**5,875,643**	**(219,000)**	**5,656,643**	**5,748,753**	**(219,000)**	**5,529,753**

As a result of the approval of the 2016 Financial statements, the General Meeting of Shareholders of 26 April 2017 approved the distribution of cash dividends to the shareholders in amount of RON 219,000 thousand. This amount generated the adjustment of own funds for the year 2016, both at separate, as well as at consolidated level, in accordance with legal provisions, subsequent to the publishing of the Consolidated and separate financial statements for 2016.

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47. Derivatives

The structure of the derivative instruments held by the Group and by the Bank as at 31 December 2017 is the following:

	Group			Bank		
31 December 2017	**Fair value assets**	**Fair value liabilities**	**Notional value**	**Fair value assets**	**Fair value liabilities**	**Notional value**
Interest rate swaps	124	53	54,272	124	53	54,272
Currency swaps	8,523	8,432	220,600	8,523	8,432	220,600
Forward agreements upon exchange rate	1,207	3,421	485,858	1,207	3,421	485,858
Total derivative financial instruments	**9,854**	**11,906**	**760,730**	**9,854**	**11,906**	**760,730**

The structure of the derivative instruments held by the Group and by the Bank as at 31 December 2016 is the following:

	Group			Bank		
31 December 2016	**Fair value assets**	**Fair value liabilities**	**Notional value**	**Fair value assets**	**Fair value liabilities**	**Notional value**
Interest rate swaps	-	-	-	-	-	-
Currency swaps	4,762	4,130	220,600	4,762	4,130	220,600
Forward agreements upon exchange rate	3,149	6,817	995,122	3,149	6,817	995,122
Total derivative financial instruments	**7,911**	**10,947**	**1,215,722**	**7,911**	**10,947**	**1,215,722**

Forward agreements
Forward agreements represent contractual arrangements to buy or sell a certain financial instrument, at a certain price and at a certain future date. Forward contracts are customized contracts traded on an unregulated market.

Swap agreements
Swaps are contracts between two parties to exchange cash flows over time based on the specified notional amounts. Swaps can be linked to interest rates, stock indices, foreign currency exchange rates, etc.
Interest rate swaps are contracts that the Group and the Bank sign with other financial institutions, by which the Group and the Bank either receive or pay a variable interest rate in exchange for a fixed interest rate. Payment flows are usually set off, the remaining amount being paid only by one of the parties.
As concerns exchange rate swaps, the Group and the Bank pay a certain amount in a specific currency and receive a stated amount in another currency. Exchange rate swaps are settled on a mutual basis in most of the cases.

48. Reconciliation of liabilities resulting from financial activities

The changes of the liabilities resulting from the Group's financial activities carried out in 2017 and 2016 are presented below:

Group 2017 In RON Thousand	1 January 2017	Cash flow	Foreign exchange variation	31 December 2017
Long-term loans	1,241,821	388,637	9,163	1,639,621

Group 2016 In RON Thousand	1 January 2016	Cash flow	Foreign exchange variation	31 December 2016
Long-term loans	1,266,840	(34,228)	9,209	1,241,821

The changes of the liabilities resulting from the Bank's financial activities carried out in 2017 and 2016 are presented below:

Bank 2017 In RON Thousand	1 January 2017	Cash flow	Foreign exchange variation	31 December 2017
Long-term loans	1,183,293	60,639	7,743	1,257,273

Bank 2016 In RON Thousand	1 January 2016	Cash flow	Foreign exchange variation	31 December 2016
Long-term loans	1,121,762	52,783	8,718	1,183,293

49. Events subsequent to the date of the consolidated statement of financial position

In November 2017, Banca Transilvania S.A. announced its initiative to invest in the Republic of Moldova and received in the following period the acquisition approval from the Romanian and Moldovan supervisory authorities - the National Bank of Romania, the National Bank of Moldova and the Competition Council of the Republic of Moldova.

Following the balance sheet date, notably on 19 January 2018, Banca Transilvania S.A. became a shareholder of Victoriabank S.A., the third largest bank in the Republic of Moldova, holding more than 66% of the shares in this financial institution, together with the EBRD.

Between 14 February – 24 April 2018, Banca Transilvania S.A. launched a mandatory tender offer to take over the securities issued by Victoriabank S.A., in accordance with the Moldovan capital market legislation; the offer was addressed exclusively to the current minority shareholders of Victoriabank S.A.
The objective of the tender offer was the acquisition of the remaining 8,308,673 shares issued by Victoriabank S.A., representing 33.23% of the total number of nominal ordinary shares with voting rights, in accordance with the approval of the National Commission for Financial Markets in the Republic of Moldova.
Moreover, a process was initiated for the appointment of the representatives of the new shareholder in the management committee and the Board of Directors of Victoriabank S.A., a process estimated to be completed in April 2018.

In November 2017, the Board of Directors of Banca Transilvania S.A. also approved the execution of the transaction for the acquisition of the majority stake (99.15%) held by Eurobank Group in the share capital of Bancpost S.A., the agreement being signed on 24 November 2017. According to the transaction, Banca Transilvania Financial Group will also acquire the full equity participations in the Eurobank Group subsidiaries located in Romania, notably ERB Retail Services IFN S.A. and ERB Leasing IFN S.A.

In March 2017, BT received the approval for BancPost SA acquisition, from the National Bank of Romania and Competition Council. The transaction will be finalized after all the legal procedures and contractual agreements are met.

Until the date of approval and release of the consolidated financial statements, Banca Transilvania S.A. has not obtained all the authorizations necessary to acquire control pursuant to IFRS, and the consolidated financial statements herein have not been affected by such transactions.

The financial statements were approved by the Board of Directors on 21 March 2018 and were signed on its behalf by:

Horia Ciorcilă *Chairman*	George Călinescu *Deputy CEO*