BRD – Groupe Société Générale S.A.

CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

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

DECEMBER 31, 2017

BRD – Groupe Société Générale S.A.
CONSOLIDATED AND SEPARATE STATEMENT OF FINANCIAL POSITION
as of December 31, 2017
(Amounts in thousands RON)

		Group		Bank	
	Note	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
ASSETS					
Cash in hand	6	1,924,214	1,800,529	1,924,188	1,800,506
Due from Central Bank	7	5,757,953	5,339,460	5,757,953	5,339,460
Due from banks	8	2,549,512	1,998,271	2,530,468	1,971,333
Derivatives and other financial instruments held for trading	9	637,686	1,203,282	637,689	1,203,299
Loans and advances to customers	10	29,608,422	27,838,705	29,011,925	27,384,110
Finance lease receivables	11	727,768	663,517	-	-
Financial assets available for sale	12	12,135,373	11,609,855	12,113,692	11,585,000
Investments in associates and subsidiares	13	151,860	134,071	158,594	158,997
Property, plant and equipment	14	832,918	833,580	825,645	825,393
Investment property	14	12,544	13,946	12,544	13,946
Goodwill	15	50,130	50,130	50,130	50,130
Intangible assets	16	106,408	90,250	103,263	86,070
Deferred tax asset	21	112,536	65,060	109,484	61,321
Other assets	17	320,067	240,836	255,348	178,018
Total assets		**54,927,391**	**51,881,492**	**53,490,923**	**50,657,583**
LIABILITIES AND SHAREHOLDERS' EQUITY					
Due to banks	18	885,970	531,601	885,970	531,601
Due to customers	19	44,219,686	42,192,749	44,387,308	42,290,738
Borrowed funds	20	1,252,455	1,101,558	48,530	138,451
Derivatives and other financial instruments held for trading	9	138,044	211,032	138,044	211,066
Current tax liability	21	103,581	142,082	102,388	140,124
Deferred tax liability	21	955	710	-	-
Other liabilities	22	957,949	1,027,927	900,296	978,420
Total liabilities		**47,558,640**	**45,207,659**	**46,462,536**	**44,290,400**
Share capital	23	2,515,622	2,515,622	2,515,622	2,515,622
Other reserves		66,302	272,047	61,606	272,047
Retained earnings and capital reserves		4,733,415	3,835,793	4,451,159	3,579,514
Non-controlling interest		53,412	50,371	-	-
Total equity		**7,368,751**	**6,673,833**	**7,028,387**	**6,367,183**
Total liabilities and equity		**54,927,391**	**51,881,492**	**53,490,923**	**50,657,583**

The financial statements have been authorized by the Group's management on March 9, 2018 and are signed on the Group's behalf by:

Giovanni Luca Soma
Chairman of the Board of Directors

François Bloch
Chief Executive Officer

Petre Bunescu
Deputy Chief Executive Officer

Stephane Fortin
Chief Financial Officer

BRD – Groupe Société Générale S.A.
CONSOLIDATED AND SEPARATE PROFIT OR LOSS
for the year ended December 31, 2017
(Amounts in thousands RON)

		Group		Bank	
	Note	2017	2016	2017	2016
Interest and similar income	24	1,860,134	1,807,507	1,734,967	1,689,231
Interest and similar expense	25	(140,762)	(221,037)	(130,611)	(207,735)
Net interest income		**1,719,372**	**1,586,470**	**1,604,356**	**1,481,496**
Fees and commissions, net	26	**763,043**	**772,666**	**726,290**	**737,021**
Foreign exchange gain	28	359,383	179,116	358,540	178,700
Gain / (Loss) on derivative and other financial instruments held for trading	27	(102,296)	73,231	(102,476)	72,774
Gain on financial assets available for sale		9,328	131,419	9,328	131,318
Income from associates	29	32,150	27,752	19,059	16,939
Other income	30	4,895	6,995	26,402	15,924
Operating income		**2,785,875**	**2,777,649**	**2,641,499**	**2,634,172**
Personnel expenses	32	(739,153)	(687,785)	(690,936)	(643,091)
Depreciation, amortisation and impairment on tangible and intangible assets	33	(137,020)	(128,529)	(134,053)	(124,561)
Contribution to Guarantee Scheme and Resolution Fund	31	(70,750)	(65,139)	(70,750)	(65,139)
Other operating expenses	34	(526,295)	(506,119)	(491,829)	(476,886)
Total operating expenses		**(1,473,218)**	**(1,387,572)**	**(1,387,568)**	**(1,309,677)**
Net operating profit		1,312,657	1,390,077	1,253,931	1,324,495
Cost of risk	35	359,517	(483,508)	375,687	(461,176)
Profit before income tax		**1,672,174**	**906,569**	**1,629,618**	**863,319**
Current income tax expense	21	(264,746)	(165,773)	(257,314)	(157,783)
Deferred tax (expense) / income	21	7,147	22,703	8,080	22,745
Total income tax		**(257,599)**	**(143,070)**	**(249,234)**	**(135,038)**
Profit for the period		**1,414,575**	**763,499**	**1,380,384**	**728,281**
Profit attributable to equity holders of the parent		1,406,360	757,530		
Profit attributable to non-controlling interests		8,215	5,969		
Basic earnings per share (in RON)	41	**2.0180**	**1.0870**	**1.9807**	**1.0450**

CONSOLIDATED AND SEPARATE STATEMENT OF COMPREHENSIVE INCOME
for the year ended December 31, 2017
(Amounts in thousands RON)

	Note	Group 2017	Group 2016	Bank 2017	Bank 2016
Profit for the period		**1,414,575**	**763,499**	**1,380,384**	**728,281**
Net comprehensive income that was or will be reclassified to profit and loss in subsequent periods		**(205,974)**	**(103,611)**	**(210,670)**	**(103,611)**
Net gain/(loss) on available for sale financial assets		(210,670)	(103,611)	(210,670)	(103,611)
Reclassifications to profit and loss during the period		(9,328)	(131,419)	(9,328)	(131,318)
Revaluation differences		(241,470)	8,072	(241,470)	7,971
Income tax	21	40,128	19,736	40,128	19,736
Exchange differences on translation of foreign operations		4,696	-	-	-
Net comprehensive income not to be reclassified to profit and loss in subsequent periods		**229**	**(17,092)**	**229**	**(17,092)**
Gain/(Loss) on defined pension plan	22	273	(20,347)	273	(20,347)
Income tax relating to defined pension plan	21	(44)	3,256	(44)	3,256
Other comprehensive income for the period, net of tax		**(205,745)**	**(120,703)**	**(210,441)**	**(120,703)**
Total comprehensive income for the period, net of tax		**1,208,830**	**642,796**	**1,169,943**	**607,578**
Attributable to:					
Equity holders of the parent		1,200,615	636,827		
Non-controlling interest		8,215	5,969		

CONSOLIDATED AND SEPARATE STATEMENT OF CHANGES IN EQUITY
for the year ended December 31, 2017
(Amounts in thousands RON)

Group

	Attributable to equity holders of the parent						
		Other reserves					
	Issued capital	Reserves from revaluation of available for sale assets	Reserves from defined pension plan	Foreign currency translation reserve	Retained earnings and capital reserves	Non-controlling interest	Total equity
December 31, 2015	**2,515,622**	**380,308**	**12,442**	**-**	**3,299,819**	**49,252**	**6,257,443**
Total comprehensive income	-	(103,611)	(17,092)	-	757,530	5,969	642,796
Net Profit for the period	-	-	-	-	757,530	5,969	763,499
Other comprehensive income	-	(103,611)	(17,092)	-	-	-	(120,703)
Shared-based payment	-	-	-	-	1,453	-	1,453
Equity dividends	-	-	-	-	(223,009)	(4,850)	(227,859)
December 31, 2016	**2,515,622**	**276,697**	**(4,650)**	**-**	**3,835,793**	**50,371**	**6,673,833**
Total comprehensive income	-	(210,670)	229	4,696	1,406,360	8,215	1,208,830
Net Profit for the period	-	-	-		1,406,360	8,215	1,414,575
Other comprehensive income	-	(210,670)	229	4,696	-	-	(205,745)
Shared-based payment	-	-	-		-	-	-
Equity dividends	-				(508,738)	(5,174)	(513,912)
December 31, 2017	**2,515,622**	**66,027**	**(4,421)**	**4,696**	**4,733,415**	**53,412**	**7,368,751**

Bank

		Other reserves			
	Issued capital	Reserves from revaluation of available for sale assets	Reserves from defined pension plan	Retained earnings and capital reserves	Total equity
December 31, 2015	**2,515,622**	**380,308**	**12,442**	**3,072,817**	**5,981,189**
Total comprehensive income	-	(103,611)	(17,092)	728,281	607,578
Net Profit for the period	-	-	-	728,281	728,281
Other comprehensive income	-	(103,611)	(17,092)	-	(120,703)
Shared-based payment	-	-	-	1,425	1,425
Equity dividends	-	-	-	(223,009)	(223,009)
December 31, 2016	**2,515,622**	**276,697**	**(4,650)**	**3,579,514**	**6,367,183**
Total comprehensive income	-	(210,670)	229	1,380,384	1,169,943
Net Profit for the period	-	-	-	1,380,384	1,380,384
Other comprehensive income	-	(210,670)	229	-	(210,441)
Equity dividends				(508,739)	(508,739)
December 31, 2017	**2,515,622**	**66,027**	**(4,421)**	**4,451,159**	**7,028,387**

(Amounts in thousands RON)

	Note	Group 2017	Group 2016	Bank 2017	Bank 2016
Cash flows from operating activities					
Profit before tax		**1,672,174**	**906,569**	**1,629,618**	**863,319**
Adjustments for non-cash items					
Depreciation and amortization expense and net loss/(gain) from disposals of tangible and intangible assets	33	137,020	128,529	134,052	124,561
Share based payment		-	1,453	-	1,425
Loss from investment revaluation		(18,192)	(10,814)	-	-
Net expenses from impairment of loans and from provisions	22,35	27,319	645,568	10,360	620,553
Income tax paid		(167,164)	(37,515)	(158,966)	(30,275)
Cash flows from operating activities before changes in operating assets and liabilities		**1,651,157**	**1,633,790**	**1,615,065**	**1,579,583**
Changes in operating assets and liabilities					
Current account with NBR		81,611	440,858	81,611	440,858
Accounts and deposits with banks		18,549	100,946	11,451	100,953
Available for sale securities		(731,492)	(2,504,506)	(739,362)	(2,497,692)
Loans		(1,737,052)	(1,740,952)	(1,577,192)	(1,628,106)
Lease receivables		(64,251)	(114,163)	-	-
Other assets		446,035	(63,501)	448,197	(44,943)
Due to banks		354,369	(169,579)	354,369	(169,579)
Due to customers		2,026,937	1,014,075	2,096,570	1,018,865
Other liabilities		(338,560)	293,028	(347,983)	294,292
Total changes in operating assets and liabilities		**56,146**	**(2,743,795)**	**327,660**	**(2,485,353)**
Cash flow from operating activities		**1,707,303**	**(1,110,004)**	**1,942,725**	**(905,770)**
Investing activities					
Acquisition of equity investments		403	(1,470)	403	(1,470)
Acquisition of tangible and intangible assets	14,16	(151,220)	(117,102)	(150,201)	(114,803)
Proceeds from sale of tangible and intangible assets		105	11	105	11
Cash flow from investing activities		**(150,712)**	**(118,561)**	**(149,693)**	**(116,262)**
Financing activities					
Proceeds from borrowings		764,315	815,817	1,534	20,448
Repayment of borrowings		(613,419)	(814,051)	(91,455)	(230,033)
Dividends paid		(513,912)	(227,858)	(508,739)	(223,009)
Net cash from financing activities		**(363,016)**	**(226,092)**	**(598,660)**	**(432,595)**
Net movements in cash and cash equivalents		**1,193,575**	**(1,454,658)**	**1,194,372**	**(1,454,628)**
Cash and cash equivalents at beginning of the period	36	**5,011,258**	**6,465,915**	**5,010,426**	**6,465,054**
Cash and cash equivalents at the end of the period	36	**6,204,833**	**5,011,258**	**6,204,801**	**5,010,426**

Operational cash flows from interest and dividends	Group 2017	Group 2016	Bank 2017	Bank 2016
Interest paid	156,846	262,630	136,950	248,735
Interest received	1,902,848	1,962,143	1,778,409	1,843,995
Dividends received	20,542	17,791	45,146	28,949

The amount of undrawn borrowing facilities that may be available for future operating activities is 698,955 (December 31, 2016: 681,165) and represents a stand by line concluded with the parent for contingency funding purposes as requested by the Romanian banking regulations on liquidity management.

(Amounts in thousands RON)

1. Corporate information

BRD – Groupe Société Générale (the "Bank" or "BRD") is a joint stock company incorporated in Romania. The Bank commenced business as a state owned credit institution in 1990 by acquiring assets and liabilities of the former Banca de Investitii. The Bank headquarters and registered office is 1-7 Ion Mihalache Blvd, Bucharest.

BRD together with its subsidiaries (the "Group') offers a wide range of banking and financial services to corporates and individuals, as allowed by law. The Group accepts deposits from the public and grants loans and leases, carries out funds transfer in Romania and abroad, exchanges currencies and provides other financial services for its commercial and retail customers.

The ultimate parent is Société Générale S.A. as at December 31, 2017 (the "Parent"or "SG").

The Bank has as at December 31, 2017 760 units throughout the country (December 31, 2016: 810).

The average number of active employees of the Group during 2017 was 7,564 (2016: 7,708), and the number of active employees of the Group as of the year-end was 7,568 (December 31, 2016: 7,605).

The average number of active employees of the Bank during 2017 was 6,982 (2016: 7,149), and the number of active employees of the Bank as of the year-end was 6,970 (December 31, 2016: 7,043).

The active employees are the full time employees (excluding maternity leave and long-term sick leave).

BRD – Groupe Société Générale has been quoted on Bucharest Stock Exchange ("BVB") since January 15, 2001.

The shareholding structure of the Bank is as follows:

	December 31, 2017	December 31, 2016
Societe Generale France	60.17%	60.17%
SIF Transilvania	3.25%	3.28%
Fondul Proprietatea	3.18%	3.64%
Fondul de Pensii Administrat Privat NN/NN Pensii	2.84%	2.46%
Legal entities	27.00%	27.20%
Individuals	3.56%	3.25%
Total	**100.00%**	**100.00%**

2. Basis of preparation

a) Basis of preparation

In accordance with European Regulation 1606/2002 of July 19, 2002 on the application of International Accounting Standards, and Order of the National Bank of Romania Governor no. 27/2010 with subsequent amendments, BRD prepared consolidated and separate financial statements for the year ended December 31, 2017 in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union ("EU").

The consolidated financial statements include the consolidated statement of financial position, the consolidated profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in shareholders' equity, the consolidated cash flow statement, and consolidated notes.

The separate financial statements include the separate statement of financial position, the separate profit or loss, the separate statement of comprehensive income, the separate statement of changes in shareholders' equity, the separate cash flow statement, and separate notes.

The consolidated and the separate financial statements are presented in Romanian lei ("RON"), which is the Group's and its subsidiaries' functional and presentation currency, rounded to the nearest thousand, except when otherwise indicated. The consolidated and separate financial statements have been prepared on a historical cost basis, except for available-for-sale investments, derivative financial instruments, other financial assets and liabilities held for trading, which have all been measured at fair value.

The Bank and Group's management has made an assessment of the Bank and Group's ability to continue as a going concern and is satisfied that the bank has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank and Group's ability to continue as a going concern. Therefore, the consolidated and separate financial statements are prepared on the going concern basis.

b) Basis for consolidation

The consolidated financial statements comprise the financial statements of the credit institution and its subsidiaries as at December 31, 2017. The financial statements of the subsidiaries are prepared for the same reporting period, using consistent accounting policies.

A subsidiary is an entity over which the Bank exercises control. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The consolidated financial statements include the financial statements of BRD – Groupe Société Générale S.A. and the following subsidiaries: BRD Sogelease IFN S.A. (99.98% ownership, 2016: 99.98%), BRD Finance IFN S.A. (49% ownership, 2016: 49%), BRD Corporate Finance SRL (0% ownership, 2016: 100 %) and BRD Asset Management SAI S.A. (99.98% ownership, 2016: 99.98%). According to IFRS 12 9(b), the Group controls BRD Finance IFN S.A even though it holds less than half of the voting rights, through the power to govern the financial and operating policies of the entity under various agreements. All intercompany transactions, balances and unrealized gains and losses on transactions between consolidated entities are eliminated on consolidation.

Starting October 1, 2014 the activity of BRD Corporate Finance SRL was temporarily interrupted for a period of three years. In December 2017 BRD Corporate Finance was disolved.

(Amounts in thousands RON)

2. Basis of preparation (continued)

b) Basis for consolidation (continued)

Group

Associates	Field of activity	Address
ALD Automotive SRL	Operational leasing	1-7, Ion Mihalache Street, Bucharest
Mobiasbanca Groupe Societe Generale S.A.	Financial institution	81 Stefan cel Mare si Sfint Street, Kishinev, Republic of Moldova
BRD Asigurari de Viata SA	Insurance	15 Splaiul Independentei Street, bloc 100, district 5, Bucharest
Fondul de Garantare a Creditului Rural IFN SA	Loans guarantee	5 Occidentului Street, Bucharest
Biroul de Credit S.A.	Financial institution	29 Sfanta Vineri Street, floor 4, district 3, Bucharest
BRD Societate de Administrare a Fondurilor de Pensii Private SA	Pension fund management	15 Splaiul Independentei Street, bloc 100, district 5, Bucharest
BRD Sogelease Asset Rental SRL	Operational leasing	1-7, Ion Mihalache Street, Bucharest

Bank

	Field of activity	Address
Associates		
ALD Automotive SRL	Operational leasing	1-7, Ion Mihalache Street, Bucharest
Mobiasbanca Groupe Societe Generale S.A.	Financial institution	81 Stefan cel Mare si Sfint Street, Kishinev, Republic of Moldova
BRD Asigurari de Viata SA	Insurance	15 Splaiul Independentei Street, bloc 100, district 5, Bucharest
Fondul de Garantare a Creditului Rural IFN SA	Loans guarantee	5 Occidentului Street, Bucharest
Biroul de Credit S.A.	Financial institution	29 Sfanta Vineri Street, floor 4, district 3, Bucharest
BRD Societate de Administrare a Fondurilor de Pensii Private SA	Pension fund management	15 Splaiul Independentei Street, bloc 100, district 5, Bucharest
Subsidiaries		
BRD Sogelease IFN SA	Financial lease	1-7, Ion Mihalache Street, Bucharest
BRD Finance IFN SA	Financial institution	1-7, Ion Mihalache Street, Bucharest
BRD Asset Management SAI SA	Fund administration	18 Elefterie Street, district 5, Bucharest
BRD Corporate Finance SRL	Business consultancy	1-7, Ion Mihalache Street, Bucharest

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Bank obtains control, and continue to be consolidated until the date such control ceases.

Equity and net income attributable to non-controlling interest are shown separately in the statement of financial position and statement of comprehensive income, respectively.

The Bank is accounting the investments in subsidiaries and associates in the separate financial statements at cost less impairment adjustment.

2. Basis of preparation (continued)

c) Changes in accounting policies and adoption of revised/amended IFRS

The accounting policies adopted are consistent with those of the previous financial year.

The following standards, amendments to the existing standards and interpretations issued by the International Accounting Standard Board ("IASB") and adopted by the EU are effective for the current period and have also been adopted in these financial statements. The impact of the application of these new and revised IFRSs has been reflected in the financial statements and was estimated as not being material, except disclosures already presented.

- **IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses (Amendments)**
  The objective of the Amendments is to clarify the requirements of deferred tax assets for unrealized losses in order to address diversity in practice in the application of IAS 12 Income Taxes. The specific issues where diversity in practice existed relate to the existence of a deductible temporary difference upon a decrease in fair value, to recovering an asset for more than its carrying amount, to probable future taxable profit and to combined versus separate assessment.
- **IAS 7: Disclosure Initiative (Amendments)**
  The objective of the Amendments is to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Amendments specify that one way to fulfil the disclosure requirement is by providing a tabular reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, including changes from financing cash flows, changes arising from obtaining or losing control of subsidiaries or other businesses, the effect of changes in foreign exchange rates, changes in fair values and other changes.

- **The IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle**, which is a collection of amendments to IFRSs.

  - **IFRS 12 Disclosure of Interests in Other Entities:** The amendments clarify that the disclosure requirements in IFRS 12, other than those of summarized financial information for subsidiaries, joint ventures and associates, apply to an entity's interest in a subsidiary, a joint venture or an associate that is classified as held for sale, as held for distribution, or as discontinued operations in accordance with IFRS 5.

d) Standards and Interpretations that are issued but have not yet come into effect

Standards issued but not yet effective up to the date of issuance of the Group and Bank's consolidated and separate financial statements are listed below. This listing is of standards and interpretations issued, which the Group and Bank reasonably expects to be applicable at a future date. The Group and Bank intends to adopt those standards when they become effective.

The Group and Bank is in progress of assessing the impact of the adoption of these standards, amendments to the existing standards and interpretations on the consolidated and separate financial statements of the Group and Bank in the period of initial application.

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

2. Basis of preparation (continued)

d) Standards and Interpretations that are issued but have not yet come into effect (continued)

- **IFRS 9 Financial Instruments: Classification and Measurement**
  The standard is effective for annual periods beginning on or after 1 January 2018, with early application permitted. The final version of IFRS 9 Financial Instruments reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. For details please see Note 5.

- **IFRS 15 Revenue from Contracts with Customers**
  The standard is effective for annual periods beginning on or after 1 January 2018. IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates.

- **IFRS 15: Revenue from Contracts with Customers (Clarifications)**
  The Clarifications apply for annual periods beginning on or after 1 January 2018 with earlier application permitted. The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 Revenue from Contracts with Customers, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach.

- **IFRS 16: Leases**
  The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged.

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

2. Basis of preparation (continued)

d) Standards and Interpretations that are issued but have not yet come into effect (continued)

- **IFRS 2: Classification and Measurement of Share based Payment Transactions (Amendments)**
  The Amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. These Amendments have not yet been endorsed by the EU.

- **IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments)**
  The Amendments are effective for annual periods beginning on or after 1 January 2018. The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the new insurance contracts standard that the Board is developing to replace IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach, which would permit entities that issue contracts within the scope of IFRS 4 to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets.

- **IAS 40: Transfers to Investment Property (Amendments)**
  The Amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These Amendments have not yet been endorsed by the EU.

- **IFRS 9: Prepayment features with negative compensation (Amendments)**
  The Amendment is effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income. These Amendments have not yet been endorsed by the EU.

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

2. Basis of preparation (continued)

d) Standards and Interpretations that are issued but have not yet come into effect (continued)

- **IFRIC INTERPETATION 22: Foreign Currency Transactions and Advance Consideration**

  The Interpretation is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. This Interpretation has not yet been endorsed by the EU.

- The **IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2018 for IFRS 1 First-time Adoption of International Financial Reporting Standards and for IAS 28 Investments in Associates and Joint Ventures. Earlier application is permitted for IAS 28 Investments in Associates and Joint Ventures. These annual improvements have not yet been endorsed by the EU.

  - **IFRS 1 First-time Adoption of International Financial Reporting Standards*:*** This improvement deletes the short-term exemptions regarding disclosures about financial instruments, employee benefits and investment entities, applicable for first time adopters.

  - **IAS 28 Investments in Associates and Joint Ventures:** The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

- **IFRIC INTERPETATION 23: Uncertainty over Income Tax Treatments**
  The Interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. This Interpretation has not yet been endorsed by the EU.

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

  - **IFRS 3 Business Combinations and IFRS 11 Joint Arrangements:** The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

2. Basis of preparation (continued)

d) Standards and Interpretations that are issued but have not yet come into effect (continued)

- **IAS 12 Income Taxes:** The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognized.

- **IAS 23 Borrowing Costs:** The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

e) Significant accounting judgments and estimates

In the process of applying the Group and Bank's accounting policies, management is required to use its judgments and make estimates in determining the amounts recognized in the consolidated and separate financial statements. The most significant use of judgments and estimates are as follows:

Fair value of financial instruments
Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities. The valuation of financial instruments is described in more detail in Note 44.

Impairment losses on loans and receivables
The Group and Bank reviews its loans and advances at each reporting date to assess whether there is any objective evidence of impairment and an allowance should be recorded in the income statement. When determining the level of allowance required, estimations regarding the amount and timing of future expected cash flows are made, based on assumptions about a number of factors; the actual outcome could differ, resulting in future changes to the allowance.

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days, whether a severe alteration in the counterparty's financial standing is observed, entailing a high probability that the debtor will not be able to fully meet its credit obligations, whether concessions in the form of restructuring were consented by the Group and Bank under the circumstances of financial hardship experienced by the debtor, whether legal procedures were initiated or the debtor was transferred to specialized recovery structures (regardless of the number of days past due).
For individually significant loans and advances, the Group and Bank identifies and quantifies the expected future cash flows to be used for a total or partial reimbursement of the obligations, based on the capacity of the client/business to generate revenues, proceeds resulting from sale of collaterals and other clearly identified sources of repayment. The individual assessment threshold is defined in between 500 - 1,500 thousands EUR, depending on the client type and customers' management departments.

The remaining loans and advances classified as impaired are grouped based on similar credit risk characteristics (debtor segmentation, product type, impairment trigger, delinquency) and a collectively estimated impairment allowance is computed against these exposures. The estimated loss rates, determined at the level of each sub-portfolio, are based on statistical observations and expertly adjusted, in order to reflect the perspectives of the recovery process and of the business environment.

2. Basis of preparation (continued)

e) Significant accounting judgments and estimates (continued)

The Group and Bank also books provisions for assets for which losses were incurred but yet not reported. The collective assessment takes into account the depreciation that is likely to affect the portfolio, determined based on statistically assessed probabilities of default and loss given default rates. The probability of default is estimated as an average of the default rates observed on a relevant time horizon, in order to reflect current context, while the loss given default corresponds to the newly defaulted clients.

The methodology and assumptions used for estimating the provisioning parameters for both impaired and not impaired collectively assessed financial assets, are periodically reviewed in order to reduce the potential gaps between estimated losses and observed losses during a certain period of time. The level of provisions is back-tested at least annually, by means of statistical analysis.

Provisions for other risks and charges

The Bank operates in a regulatory and legal environment that, by nature has a heightened element of litigation risk inherent to its operations and, as a result it is involved in various litigations or is subject to various obligations arising from legislation in force.

When the Bank can reliably measure the outflow of economic benefits in relation to a specific case and considers such outflows to be probable, the Bank records a provision against the case, as mentioned in this note. Where the probability of outflow is considered to be remote, or probable, but a reliable estimate cannot be made, a contingent liability is disclosed.

Generally, the first step is to establish the existence of the present obligation followed by the estimation of the amount needed to settle that obligation taking into account a number of factors including legal advice, the stage of the matter and historical evidence from similar incidents. Significant judgment is required to conclude on these estimates.

In case of litigations:

i. For a single individual litigation the Bank assess whether there is more likely than not to have an unfavourable court decision considering the factors mentioned above; then it estimates the amount at risk; in case there are several scenarios possible with different outcomes, the amount at risk is the weighted average of the amounts at risk for each scenario using the probability distribution for all scenarios (100% is allocated to the possible scenarios) and provisions 100% of the estimated amount;

ii. For multiple litigations, the assessment of "more likely than not" could be substantiated for the entire population using statistics and provision computation to be made at pool level.

In case of obligations arising from various legislation, the bank assesses first if there is no realistic alternative of settling that obligation, and if not, it estimates the amount needed to settle that obligation (using similar approach as above) and books provisions representing 100% of the estimated amount.

(Amounts in thousands RON)

2. Basis of preparation (continued)

f) Segment information

A segment is a component of the Group and Bank:

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

The Group and Bank's segment reporting is based on the following segments: *Retail* including Individuals and Small Business, *Non-retail* including Small and medium enterprises ("SMEs") and Large corporate and *Corporate Center* including: treasury activities, ALM and other categories unallocated to the business lines mentioned above (fixed assets, taxes, equity investments, etc).

3. Summary of significant accounting policies

a) Foreign currency translation

Transactions in foreign currencies are initially recorded using the functional currency rate ruling on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the statement of financial position date. All differences are taken to the profit and loss.
Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.
The exchange rates of the currencies with the most significant impact on the Group and Bank's consolidated and separate financial statements as of December 31, 2016 and 2015 were as follows:

	December 31, 2017	December 31, 2016
RON/ EUR	4.6597	4.5411
RON/ USD	3.8915	4.3033

b) Cash and cash equivalents

For the purpose of the cash flow statements, cash and cash equivalents comprise cash in hand, current accounts and short-term placements at other banks, excluding amounts in transit and loans to banks with more than 90 days maturity from the date of acquistion. The Group and Bank did not include in cash and cash equivalents the amounts representing minimum compulsory reserve held at National Bank of Romania.

c) Current accounts and deposits with banks

Current accounts and deposits with banks are initially measured at fair value and subsequently measured at amortized cost.

3. Summary of significant accounting policies (continued)

d) Loans and advances to customers

Loans and advances to customers originated by the Group and Bank by providing money directly to the borrower are recognized when the cash is advanced to those parties. They are measured initially at fair value including arrangement costs. Loans and advances to customers are subsequently measured at amortized cost using the effective interest rate method, less allowance for impairment.

If there is objective evidence that the Group and Bank will not be able to collect all amounts due (principal and interest) according to the original contractual terms of the loan, such loans are considered impaired. The amount of the impairment is the difference between the carrying amount and the recoverable amount of each loan, being the present value of expected cash flows discounted at the loan's effective interest rate including the amounts expected to be recovered from collateral, if the loan is collateralized and foreclosure is probable.

Impairment and recoverability are assessed, measured and recognized individually for loans and receivables that are individually significant, and on a portfolio basis for impaired loans and receivables that are not individually significant. Loans and receivables for which an objective evidence of impairment was not identified, regardless the loans are individually significant or not, are included in a portfolio for collective impairment assessment. The carrying amount of the asset is reduced to its estimated recoverable amount either directly or through the use of an allowance account. The loss amount is recognised into profit and loss. If the amount of the impairment subsequently decreases due to an event occurring after the impairment, the release of the allowance is credited to the income statement.

A write-off is performed when the entire loan is deemed uncollectible (very high uncertainty regarding recoverable amount and timeframe). Write-off is not conditioned by the closure of the legal procedures, nor does it imply the forfeit of the bank's claims to the receivables/financial asset.

The Bank performs permanent write offs in several situations, such as:

- Financial assets are considered immaterial, thus do not justify the initiation of the recovery process
- The collaterals which cover the receivables have a recovery value deemed immaterial and no other recovery sources could be identified
- Exhaustion of all legal means or end of the statute of limitation period for enforcement rights, etc.

Any subsequent recoveries of previously written-off loans and receivables are recognized as income.

e) Restructured loans

Where possible, the Group and Bank seeks to restructure loans with the purpose of facilitating the recovery of the receivables from client facing financial difficulties, rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated the loan is no longer considered past due, but will be considered as impaired since, in the absence of such an operation, the client would have been unable to make repayments according to the original reimbursement schedule. Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment.

3. Summary of significant accounting policies (continued)

f) Leases

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

Group as a lessor

Finance leases are those which transfer to the lessee substantially all the risks and benefits incidental to ownership of the leased item and are recognized as assets at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are allocated both to the principal and the interest income on a pattern reflecting a constant periodic rate of return on the lessor's net investment outstanding in respect of the finance lease.

Leases where the Group retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized in income on a straight-line basis over the lease term.

Group as a lessee

Leases which do not transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognized as an expense in the income statement on a straight line basis over the lease term. Rents payable are recognized as an expense in the period in which they are incurred.

g) Investment in associates

An associate is an enterprise in which the Group and Bank exercises significant influence and is neither a subsidiary nor a joint venture. Associates are accounted using the equity method for consolidation purposes and cost method for separate financial statements.

Under the equity method, an investment in an associate is carried in the statement of financial position at cost plus post-acquisition changes in the Group and Bank’s share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortized. The Group and Bank does an assessment of any additional impairment loss with respect to the net investment in associate.

The income statement reflects the share of the results of operations of associates. Where there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any changes and discloses this, when applicable, in the statement of changes in equity.

The reporting dates of associates and the Group are identical and the associates’ major accounting policies conform to those used by the Group for like transactions and similar events in similar circumstances.

3. Summary of significant accounting policies (continued)

h) Investments and other financial assets classified as available for sale

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as: (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Available for sale financial assets are recognized initially at fair value plus directly attributable transaction costs.

All regular way purchases and sales of financial assets are recognized on the settlement date. Fair value movements between trade date and settlement date are recognized in other comprehensive income. Regular way purchases or sales are purchases or sales of financial assets that require delivery within the period generally established by regulation or convention in the marketplace.

After initial recognition available-for sale financial assets are measured at fair value with gains or losses being recognized as other comprehensive income in the available for sale reserve until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in the available for sale reserve is included in the income statement. The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the statement of financial position date.

When the Group and Bank identifies a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost, it considers that this is also objective evidence of impairment.

The Group and Bank consider as objective evidence of impairment exists when the decline in fair value is higher than 15% per year for two consecutive financial. Impairment reversals in respect of equity instruments classified as available-for sale are not recognized in income statement.

In the case of debt instruments classified as available for sale, the impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of profit or loss.

If the fair value cannot be reliably determined by reference to an active market, the bank uses valuation techniques with reference to observable market inputs.

3. Summary of significant accounting policies (continued)

i) Tangible assets

The cost of tangible asset is recognized as an asset if, and only if: (a) it is probable that future economic benefits associated with the item will flow to the Group; and (b) the cost of the item can be measured reliably.

Buildings and other tangible assets are stated at cost less accumulated depreciation and any impairment loss.

In accordance with IAS 29 "Reporting in Hyperinflationary Economies", tangible assets have been restated, as appropriate, by applying the change in the consumer price index from the date of acquisition through December 31, 2003.

Depreciation is computed on a straight-line basis over the estimated useful life of the asset, as stated below:

Asset type	*Years*
Buildings and special constructions	10-40
Computers and equipment	3-5
Furniture and other equipment	15
Vehicles	5

Land is not depreciated. Construction-in-progress is not depreciated until used. Expenses for repairs and maintenance are charged to operating expenses as incurred. Subsequent expenditure on property and equipment is recognized as an asset under the same general recognition principle used at initial recognition.

The carrying values of tangible assets are reviewed for impairment at each statement of financial position date or whenever events or changes in circumstances indicate the carrying value may not be recoverable. Where the carrying amount of a tangible asset is greater than the estimated recoverable amount, it is written down to its recoverable amount. Tangible assets are derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognized.

j) Investment properties

Assets are classified as investment property if the property (land or a building - or part of a building - or both) is held (by the Bank or Group as owner) to earn rentals or for capital appreciation or both, rather than for: (a) use in the production or for administrative purposes; or (b) sale in the ordinary course of business.

Investment properties are measured initially at cost including transaction costs. Subsequent to initial recognition, investment properties are carried at cost less any accumulated depreciation and any accumulated impairment losses.

Investment properties are derecognized when either they have been disposed off or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the income statement in the year of retirement or disposal.

3. Summary of significant accounting policies (continued)

j) Investment properties (continued)

Transfers are made to investment property when and only when, there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party, or ending of construction or development. Transfers are made from investment property when and only when, there is a change in use evidenced by commencement of owner-occupation or commencement of development with a view to sale.

The depreciation of buildings included in investment properties is computed using the linear method over the useful lives as presented in note 3. i).

k) Non-current assets held for sale

Non-current assets for which the carrying amount is estimated to be recovered principally through a sale transaction rather than continuing use are classified as held for sale.

Assets held for sale are initially and subsequently measured at the lower of the carrying amount and the fair value at the date of the measurement. For any decrease of the fair value below the carrying amount, impairment is recognised into profit and loss accounts. The increase of the fair value of a held for sale asset is accounted for as an impairment release. Fair value increase is recognised up to the level of the initial carrying amount of the asset.

On the period an asset is classified as held for sale no depreciation charged is recognised. An assets that ceases to be classified as held for sale is measured at the lower of the carrying amount before the asset was classified as held for sale adjusted by the depreciation that would have been recognised had the asset was not classified as held for sale and its recoverable amount.

l) Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group and Bank's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment at each reporting date or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where the recoverable amount of cash-generating unit is less than the carrying amount, an impairment loss is recognized.

m) Intangible assets

Intangible assets are measured initially at cost. Following initial recognition intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

All intangible assets of the Group and Bank carried as of December 31, 2017 and 2016 have finite useful lives and are amortized on a straight-line basis over the estimated useful life of up to 5 years. The amortization period and the amortization method are reviewed at least at each financial year end.

At each statement of financial position date or whenever events or changes in circumstances indicate the carrying value may not be recoverable, intangibles are reviewed for impairment. Where the carrying amount of an asset is greater than the estimated recoverable amount, it is written down to its recoverable amount by recognising impairment.

3. Summary of significant accounting policies (continued)

n) Derivative financial instruments

The Group and Bank uses derivative financial instruments such as forward currency contracts, currency swaps, currency options, swaps and cross currency swaps on interest rate, as products offered to its clients but also to hedge its risks associated with interest rate, liquidity and exchange rate. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value.

Derivatives are carried as assets when their fair value is positive and as liabilities when fair value is negative. Any gains or losses arising from changes in fair value of derivatives that are not designated as hedge accounting instruments are taken directly to profit or loss for the year.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest swap contracts is determined by reference to market values of similar instruments.

The Group and Bank designates certain derivatives held for risk management as hedging instruments in qualifying accounting hedging relationships. The Group and Bank formally documents the relationship between the hedging instruments and hedged item, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship.

The Group and Bank makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, as to whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value during the period for which the hedge is designated. The actual results of the hedge as recommended by IAS 39 should be in the range of 80-125 percent, but the Group and Bank uses a more prudent approach and the range considered is 88-114 percent.

The Group and Bank uses fair value hedges. When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognized asset or liability or a firm commitment that could affect profit or loss, changes in the fair value of the derivative are recognized immediately in profit and loss together with changes in the fair value of the hedged item that are attributable to the hedged risk.

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. Any adjustment up to that point to a hedged item for which the effective interest method is used, is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

o) Borrowings

Borrowings are initially recognized at the fair value of the consideration received less directly attributable transaction costs. Subsequently borrowings are stated at amortized cost using the effective interest rate method.

Gains and losses are recognized in net profit or loss when the liabilities are derecognized as well as through the amortization process.

3. Summary of significant accounting policies (continued)

p) Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle or realize on a net basis.

q) Sale and repurchase agreements

Securities sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognized in the statement of financial position as securities and are measured in accordance with the applicable accounting policies. The liability for amounts received under these agreements is included in customers' or interbank deposits. The difference between sale and repurchase price is treated as interest expense using the effective yield method. Assets acquired with a corresponding commitment to resell at a specified future date (reverse repos) are recorded as loans and advances.

r) Customers' deposits and current accounts

Customers' current accounts and other deposits are initially recognised at fair value and subsequently measured at amortized cost using the effective interest rate method.

s) De-recognition of financial assets and liabilities

Financial assets

A financial asset is derecognized where:
- The rights to receive cash flows from the assets have expired;
- The Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- The Group has transferred its rights to receive cash flows from the asset and either a) has transferred substantially all the risks and rewards of the asset, or b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities

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

t) Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the benefits can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Interest and similar income

For all financial instruments measured at amortized cost and interest bearing financial instruments classified as available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial

3. Summary of significant accounting policies (continued)

t) Recognition of income and expenses (continued)

asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any origination fees and incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

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

Fee and commission income

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

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

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

(ii) Fee income from providing transaction services

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

Levies

IFRIC 21 “Levies” clarifies the accounting for a liability to pay a levy. For an entity, the obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation. The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time. Furthermore, if an obligation to pay a levy is triggered when a minimum activity threshold is reached, the corresponding liability is recognised when that minimum activity threshold is reached.
The main related taxes which fall under the provisions of IFRIC 21 are as follows:
- The Bank annual contribution to Deposit Guarantee Scheme is fully recognised in the income statement at 1st January of the year in which the payment is made.
- The Bank annual contribution to the Single Resolution Fund, is fully recognised in the income statement at 1st January of the year in which the payment is made.

Dividend income
Revenue is recognized when the Group and Bank’s right to receive the payment is established.

Net trading income
Net trading income comprises gains less losses related to trading assets and liabilities and includes all realised and unrealised fair value changes, interest, dividends and foreign exchange differences.

3. Summary of significant accounting policies (continued)

u) Employee benefits

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

Social Security Contributions:
The Group and its subsidiaries as well as its employees are legally obliged to make contributions described in the financial statements as social security contributions to the National Pension Fund, managed by the Romanian State Social Security (a defined contribution plan financed on a pay-as-you-go basis). The Group and Bank has no legal or constructive obligation to pay future benefits. Its only obligation is to pay the contributions as they fall due. If the members of the Romanian State Social Security plan cease to be employed by either the Group or its subsidiary, there will be no obligation on the Group to pay the benefits earned by these employees in previous years. The Group and Bank's contributions are included in salaries and related expenses.

Post-employment benefits:
The Group and Bank has a contractual obligation to pay to retiring employees a benefit calculated taking into account the salary at the date of retirement and the number of years served by the individual. The cost of providing benefits under defined benefit plans is estimated annually using the projected unit credit actuarial valuation method and is recognized to the income statement on an accruals basis.

Differences arising from changes in calculation assumptions (early retirements, discount rates, etc.) or differences between actuarial assumptions and real performance are recognized as actuarial gains and losses.

Actuarial gains and losses, excluding amounts expensed as net interest on the net defined benefit liability are components used to re-measure the net defined benefit liability. These components are immediately and fully recognised as unrealised gains and losses and presented under Reserves from defined pension plan. These items are subsequently never reclassified in income statement but transferred to retain earnings.

Where a new or amended plan comes into force, the past service cost is immediately recognized in profit or loss.

An annual charge is recorded under Personnel expenses for defined benefit plans, consisting of:
- the additional entitlements vested by each employee (current service cost);
- past service cost resulting from a plan amendment or a curtailment;
- the financial expense resulting from the discount rate (net interest on the net defined benefit liability);
- the settlement of plans.

Share–based payment transactions:
Employees (including senior executives) of the Group and Bank receive remuneration in the form of SG share–based payment transactions, whereby employees render services as consideration for equity instruments ('equity–settled transactions') and Group Societe Generale attains certain ratios.

The cost of equity–settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('the vesting date').

3. Summary of significant accounting policies (continued)

u) Employee benefits (continued)

The cumulative expense recognized for equity–settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group and Bank 's best estimate of the number of equity instruments that will ultimately vest. The expense recognized in Profit or Loss statement for a period is recorded in "Personnel expenses" and represents the movement in cumulative expense recognized as at the beginning and end of that period.

Where the terms of an equity–settled award are modified, the minimum expense recognized in "Personnel expenses" is the expense as if the terms had not been modified. An additional expense is recognized for any modification which increases the total fair value of the share–based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity–settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. This includes any award where non–vesting conditions within the control of either the entity or the counterparty are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Other benefits
The Bank also grants to all employees having a seniority in the Bank higher than 3 years as at January 1, 2017, an annual contribution to the pension fund in total amount of EUR 200 /year/employee.

v) Taxation

The current tax is the amount of income taxes payable in respect of the taxable profit, computed in accordance with Romanian tax rules and accrued for in the period to which it relates.

Deferred income tax liabilities are recognized for all taxable temporary differences between the tax bases of assets and liabilities and their carrying amounts at the statement of financial position date for financial reporting purposes, which will result in taxable amounts in future periods.

Deferred income tax assets are recognized for all deductible temporary differences and carry-forward of unutilized tax losses to the extent that it is probable that taxable profit will be available, against which the deductible temporary differences and carry forward of unused tax losses can be utilized. Deferred income tax assets and liabilities are measured at the amount that is expected to be paid to or recovered from the tax authorities after taking into account the tax rates and legislation that have been enacted or substantially enacted until the statement of financial position date.

Current and deferred tax assets and liabilities are offset when they arise from the same tax reporting entity and relate to the same tax authority and when the legal right to offset exists. Income tax relating to items recognized directly in equity is recognized in equity and not in the income statement.

3. Summary of significant accounting policies (continued)

w) Provisions

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

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

x) Contingencies

Contingent liabilities are not recognized in the financial statements but they are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

y) Earnings per share

Basic earnings per share are calculated by dividing net profit/ (loss) for the reporting period attributable to ordinary equity holders of the parent by the weighted average number of shares outstanding during the year. As of December 31, 2017 and 2016 there were no dilutive equity instruments issued by the Group and Bank.

z) Dividends on ordinary shares

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

aa) Related parties

Parties are considered related with the Group and Bank when one party, either through ownership, contractual rights, family relationship or otherwise, has the ability to directly or indirectly control or significantly influence the other party in making financial and operating decisions.

Related party transaction represents a transfer of resources or obligations between related parties, regardless of whether a price is charged.

bb) Subsequent events

Post - balance sheet events that provide additional information about the Group and Bank's position at the statement of financial position (adjusting events), or those that indicate that the going concern assumption is not appropriate are reflected in the financial statements. Post-balance sheet events that are not adjusting events are disclosed in the notes when significant.

3. Summary of significant accounting policies (continued)

cc) Financial guarantees

In the ordinary course of business, the Group and Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances and performance guarantees.

Financial guarantees are initially recognized in the financial statements at fair value, in 'Other liabilities', being the premium received. Subsequent to initial recognition, the Group and Bank's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required settling any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the income statement in 'Credit loss expense'. The premium received is recognized in the income statement in 'Net fees and commission income' on a straight line basis over the life of the guarantee.

4. Segment information

The segments used for management purposes are based on customer type and size, products and services offered as follows:

In Retail (Individuals & Small Business) category the following customer's segments are identified:

- Individuals – the Bank provides individual customers with a range of banking products such as: saving and deposits taking, consumer and housing loans, overdrafts, credit card facilities, funds transfer and payment facilities, etc.
- Small business – business entities with annual turnover lower than EUR 1 million and having an aggregated exposure at group level less than EUR 0.3 million. Standardised range of banking products is offered to small companies and professional: saving and deposits taking, loans and other credit facilities, etc.

Retail customers include clients with similar characteristics in terms of financing needs, complexity of the activity performed and size of business for which a range of banking products and services with medium to low complexity is provided.

In Non –Retail category the following customer's segments are identified:

- Small and medium enterprises (companies with annual turnover between EUR 1 million and EUR 50 million and the aggregated exposure at group level higher than EUR 0.3 million);
- Large corporate (corporate banking and companies with annual turnover higher than 50 million EUR, municipalities, public sector and other financial institutions).

The Bank provides these customers with a range of banking products and services, including saving and deposits taking, loans and other credit facilities, transfers and payment services, provides cash-management, investment advices, securities business, project and structured finance transaction, syndicated loans and asset backed transactions.

The Corporate Center includes: treasury activities, ALM and other categories unallocated to Retail and Non-Retail business lines.

The Executive Committee monitors the activity of each segment separately for the purpose of making decisions about resource allocation and performance assessment.

(Amounts in thousands RON)

4. Segment information (continued)

Group

	December 31, 2017				December 31, 2016			
	Total	Retail	Non retail	Corporate Center	Total	Retail	Non retail	Corporate Center
Total assets	**54,927,391**	**20,905,485**	**9,430,705**	**24,591,201**	**51,881,492**	**19,243,053**	**9,259,169**	**23,379,270**
Loans and advances to customers, net & Finance lease receivables	30,336,190	20,905,485	9,430,705	-	28,502,222	19,243,053	9,259,169	-
Other assets	24,591,201	-	-	24,591,201	23,379,270	-	-	23,379,270
Total liabilities	**54,927,391**	**27,837,197**	**16,382,489**	**10,707,705**	**51,881,492**	**26,020,524**	**16,172,225**	**9,688,743**
Due to customers	44,219,686	27,837,197	16,382,489	-	42,192,749	26,020,524	16,172,225	-
Other liabilities	10,707,705	-	-	10,707,705	9,688,743	-	-	9,688,743

Bank

	December 31, 2017				December 31, 2016			
	Total	Retail	Non retail	Corporate Center	Total	Retail	Non retail	Corporate Center
Total assets	**53,490,923**	**20,258,898**	**8,753,027**	**24,478,998**	**50,657,583**	**18,699,395**	**8,684,715**	**23,273,473**
Loans and advances to customers, net & Finance lease receivables	29,011,925	20,258,898	8,753,027	-	27,384,110	18,699,395	8,684,715	-
Other assets	24,478,998	-	-	24,478,998	23,273,473	-	-	23,273,473
Total liabilities	**53,490,923**	**27,837,197**	**16,550,111**	**9,103,615**	**50,657,583**	**26,020,524**	**16,270,214**	**8,366,845**
Due to customers	44,387,308	27,837,197	16,550,111	-	42,290,738	26,020,524	16,270,214	-
Other liabilities	9,103,615	-	-	9,103,615	8,366,845	-	-	8,366,845

(Amounts in thousands RON)

4. Segment information (continued)

	Group							
	2017				2016			
	Total	Retail	Non retail	Corporate Center	Total	Retail	Non retail	Corporate Center
Net interest income	1,719,372	1,131,353	417,382	170,637	1,586,470	1,025,771	424,526	136,173
Fees and commissions, net	763,043	581,438	181,982	(377)	772,666	575,693	198,789	(1,816)
Total non-interest income	303,460	100,350	95,179	107,931	418,513	104,559	90,357	223,597
Operating income	**2,785,875**	**1,813,141**	**694,543**	**278,191**	**2,777,649**	**1,706,023**	**713,672**	**357,954**
Total operating expenses	**(1,473,218)**	**(997,243)**	**(411,350)**	**(64,625)**	**(1,387,572)**	**(986,164)**	**(383,568)**	**(17,840)**
Cost of risk	359,517	(109,500)	519,199	(50,182)	(483,508)	(268,726)	(16,755)	(198,027)
Profit before income tax	**1,672,174**	**706,398**	**802,392**	**163,384**	**906,569**	**451,133**	**313,349**	**142,087**
Total income tax	(257,599)	(108,993)	(124,286)	(24,320)	(143,070)	(69,223)	(51,358)	(22,489)
Profit for the period	**1,414,575**	**597,405**	**678,106**	**139,064**	**763,499**	**381,910**	**261,991**	**119,598**
Cost Income Ratio	**52.9%**	**55.0%**	**59.2%**	**23.2%**	**50.0%**	**57.8%**	**53.7%**	**5.0%**

(Amounts in thousands RON)

4. Segment information (continued)

	Bank							
	2017				2016			
	Total	Retail	Non retail	Corporate Center	Total	Retail	Non retail	Corporate Center
Net interest income	1,604,356	1,056,561	379,243	168,552	1,481,496	956,082	407,611	117,803
Fees and commissions, net	726,290	552,635	175,259	(1,604)	737,021	547,761	191,107	(1,847)
Total non-interest income	310,853	99,075	93,885	117,893	415,655	103,043	88,663	223,949
Operating income	**2,641,499**	**1,708,271**	**648,387**	**284,841**	**2,634,172**	**1,606,886**	**687,381**	**339,905**
Total operating expenses	**(1,387,568)**	**(930,927)**	**(392,200)**	**(64,441)**	**(1,309,677)**	**(926,931)**	**(364,940)**	**(17,806)**
Cost of risk	375,687	(95,904)	516,374	(44,783)	(461,176)	(252,800)	(18,759)	(189,617)
Profit before income tax	**1,629,618**	**681,440**	**772,561**	**175,617**	**863,319**	**427,155**	**303,682**	**132,482**
Total income tax	(249,234)	(104,930)	(118,961)	(25,343)	(135,038)	(65,417)	(46,508)	(23,113)
Profit for the period	**1,380,384**	**576,510**	**653,600**	**150,274**	**728,281**	**361,738**	**257,174**	**109,369**
Cost Income Ratio	**52.5%**	**54.5%**	**60.5%**	**22.6%**	**49.7%**	**57.7%**	**53.1%**	**5.2%**

5. IFRS 9 implementation disclosures

Description of techniques that will be used for the measurement of ECL under IFRS 9

Main techniques used are:

- PD/LGD modelling;
- Exposure estimation;
- Point in time and forward looking transformation for ECL parameters;
- Simplified method for banks, sovereign and market products under amortization costs.

Differences between collective assessment for incurred but not reported losses approach and ECL approach

The main differences in the approach of good middle book provisions are:

- Rules for probability of default calibration;
- Life time loss expectation in IFRS 9 for sensitive portfolio (stage 2) instead of one year expected loss in IAS 39;
- Different rules of assessing portfolio quality, by appreciating significant increase in credit risk relative to the date of origination.

How individual triggers and consequent loss measurement under IAS 39 compare with the treatment of “credit-impaired exposures” under IFRS 9

Individual impairment triggers and default definition remain the same between IAS 39 and IFRS 9.

Changes in the timing of recognition losses

The ECL is computed from the time of origination.

Impact of forward-looking information, including any anticipated increase in volatility in provisions and earnings as compared to the incurred loss approach

In IFRS 9, expected losses are computed based on three macroeconomic scenarios: optimistic, base and stress scenario. Consequently, expected credit losses are influenced both by changes in portfolio quality as well as changes in macroeconomic projections.

ECL is using average of three scenarios to come up with the adequate level of provisions.
Macroeconomic models are sensitive to GDP, RON/EUR exchange rate and unemployment.

5. IFRS 9 implementation disclosures (continued)

Portfolio segmentation

For ECL purposes the portfolio is split into the following segments:

- Individuals
  - Unsecured
  - Overdrafts
  - Revolving
  - Home Equity RON
  - Home Equity FX
  - Mortgage RON
  - Mortgage FX
  - Prima Casa
- Professionals
- Small Business
- Corporate and Public Authorities
- Banks
- Sovereigns

Staging criteria

Non Retail (Corporate and Public Authorities):

Stage 3: EBA default definition

Stage 2:

- Doubling of the lifetime PD since origination
- Clients rated with the last three risk classes in term of risk
- Clients with expired ratings more than three months
- Clients not rated
- Healthy clients with restructured facilities in probation and DPD < 30
- Clients with DPD > 30

Stage 1: All clients not in S2 or S3

Small Business:

Stage 3: EBA default definition

Stage 2:

- Doubling of the lifetime PD since origination
- Clients rated with the last three risk classes in term of risk
- Healthy clients with restructured facilities in probation and DPD < 30
- Clients with DPD > 30

Stage 1: All clients not in S2 or S3

Individuals and Professionals:

Stage 3: EBA default definition

Stage 2:

- Doubling of the lifetime PD since origination
- Clients rated with the last two risk classes in term of risk
- Healthy clients with restructured facilities in probation and DPD < 30
- Clients with DPD > 30

Stage 1: All clients not in S2 or S3

5. IFRS 9 implementation disclosures (continued)

PD & LGD Models

PD models are based on a two-step approach:

- Building of the TTC marginal PD curve
- Adjustment of the TTC curve to incorporate point in time and forward looking information

LGD values used for IFRS9 ECL computation are based on existing LGD models, taking into account cashbacks, portfolio sales and collateral recoveries.

EAD estimation

Exposure estimation at each time step is based on ALM models and uses:

- For contract with repayment schedule: prepayment models
- For contract without repayment schedule (bullet exposure is considered up until maturity): drawing rate models

Portfolios significantly affected by the transition to IFRS 9, including the key characteristics that could affect ECL, absolute level of credit risk of portfolios, and how any wider development expected in the entity's strategy or portfolio composition might affect the expected impact of IFRS 9

Given the introduction of the new rules for provisioning assessment and booking the most impacted portfolios are:

- Housing loans portfolio. The reasons are high percentage of the portfolio classification in Stage 2 due to application of relative threshold (2008 and older production PD curves at origination were having significantly lower values than the recent assessment of risk of the same production). Stage 2 classification implies the computation of life time loss so naturally the longest maturity products are the most impacted;

- Non retail portfolio in both large and SME portfolio. This portfolio benefits relatively short maturity so lifetime loss assessment has close to neutral impact. On the other hand more sophisticated calibration of PD curves and inclusion of the favourable last two years of low default lead to lower provisions than IAS 39;

- No IBNR provisions were booked for banks and sovereign portfolio. Their ECL impact is around 0.9 M RON.

Description of SPPI testing

- SPPI testing consists of the set of questions that bank will reply on every new credit product contract, every significant modification of the credit contract and every individual credit renewal/origination that uses non standard contracts;

- In case of not fulfilling SPPI criteria, the bank will register the products of separate category in order to be able to the proper accounting and reporting of these facilities.

(Amounts in thousands RON)

5. IFRS 9 implementation disclosures (continued)

Financial impact of FTA under IFRS 9

There is a 61.5 M RON increase of stock of provisions as compared to IAS 39 (199.7 M RON increase in on-balance sheet provisions and 138.2 M RON decrease in off-balance sheet provisions).

	Impact IFRS 9 vs IAS 39	
	Group	**Bank**
ASSETS		
Due from banks	(857)	(857)
Impairment allowance for loans	(204,437)	(186,995)
Finance lease receivables	(8,310)	0
Other assets	(11,793)	(11,793)
LIABILITIES		
Other liabilities	(138,048)	(138,190)

Classification and measurement

The initial date of IFRS 9 implementation for BRD was 1.1.2018. The year of 2017 was closed under IAS 39 norm. The difference between two stocks of provisions is accounted for as direct equity impact. The difference on the implementation date amounted to 61.5 M RON.

Impairment principles

BRD uses default definition as per valid EBA definition of default. All the PD curves as entering parameters for ECL computation were calibrated applying retroactively the EBA definition to the portfolio, to ensure the consistency in the default entrance during the time of calibration. The definition of default did not change with the change of IFRS9 standard.

Staging

Staging migrations are defined by relative and absolute threshold.

Relative criteria triggering the stage 1 to stage 2 migration is significant credit risk (SICR) deterioration between the origination date and reporting date risk assessment of the facility expressed in relative increase of expected probability of default. BRD was using SICR as when the PD at the moment of origination doubled or increased over doubled by the reporting reference date. For comparison PD lifetime was used.

Absolute criteria refer to sensitive ratings on Non retail rating scale and sensitive ratings on behavioral rating model scale for retail. Days past due over 30 days are criteria for migration to stage two in both of the portfolios.

The application of IFRS 9 will trigger business alignment on BRD side:

- Pricing assessment using IFRS 9 ECL principles;
- Strategy, risk appetite statement, stress test and ICAAP planning in line with IFRS 9 principles;
- Budget models aligned to include IFRS 9 model elements.

(Amounts in thousands RON)

6. Cash in hand

	Group		Bank	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Cash in vaults	1,457,955	1,403,967	1,457,929	1,403,944
Cash in ATM	466,259	396,562	466,259	396,562
Total	**1,924,214**	**1,800,529**	**1,924,188**	**1,800,506**

7. Due from Central Bank

	Group		Bank	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Current accounts	3,757,953	3,839,460	3,757,953	3,839,460
Deposits	2,000,000	1,500,000	2,000,000	1,500,000
Total	**5,757,953**	**5,339,460**	**5,757,953**	**5,339,460**

8. Due from banks

	Group		Bank	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Deposits at Romanian banks	106,598	267,047	106,598	267,047
Deposits at foreign banks	1,892,604	658,318	1,873,568	632,186
Current accounts at Romanian banks	9	808	-	3
Current accounts at foreign banks	506,663	597,248	506,663	597,248
Reverse repo	43,638	474,849	43,638	474,849
Total	**2,549,512**	**1,998,271**	**2,530,467**	**1,971,333**

As of December 31, 2017 amounts due from banks include exposures to SG Group amounting 172,196 at Group level (December 31, 2016 exposures of 225,926) and 153,161 at Bank level (December 31, 2016 exposures of 199,795).

(Amounts in thousands RON)

9. Derivatives and other financial instruments held for trading

Group

	December 31, 2017		
	Assets	**Liabilities**	**Notional**
Interest rate swaps	78,837	41,127	2,459,989
Currency swaps	8,452	26,543	4,158,804
Forward foreign exchange contracts	20,805	3,404	1,872,710
Options	46,190	46,267	4,133,047
Total derivative financial instruments	**154,284**	**117,341**	**12,624,550**
Trading treasury notes	483,402	20,703	481,217
Total	**637,686**	**138,044**	**13,105,767**

	December 31, 2016		
	Assets	**Liabilities**	**Notional**
Interest rate swaps	197,954	43,094	3,102,359
Currency swaps	30,124	18,456	2,642,290
Forward foreign exchange contracts	18,664	28,077	1,398,477
Options	65,522	65,835	4,720,439
Total derivative financial instruments	**312,264**	**155,462**	**11,863,565**
Trading treasury notes	891,018	55,570	896,754
Total	**1,203,282**	**211,032**	**12,760,319**

Bank

	December 31, 2017		
	Assets	**Liabilities**	**Notional**
Interest rate swaps	78,837	41,127	2,459,989
Currency swaps	8,455	26,543	4,160,809
Forward foreign exchange contracts	20,805	3,404	1,872,710
Options	46,190	46,267	4,133,047
Total derivative financial instruments	**154,287**	**117,341**	**12,626,555**
Trading treasury notes	483,402	20,703	481,217
Total	**637,689**	**138,044**	**13,107,772**

	December 31, 2016		
	Assets	**Liabilities**	**Notional**
Interest rate swaps	197,954	43,094	3,102,359
Currency swaps	30,141	18,490	2,647,302
Forward foreign exchange contracts	18,664	28,077	1,398,477
Options	65,522	65,835	4,720,439
Total derivative financial instruments	**312,281**	**155,496**	**11,868,577**
Trading treasury notes	891,018	55,570	896,754
Total	**1,203,299**	**211,066**	**12,765,331**

The Group and Bank received cash collateral from the parent for derivatives transactions in amount of 24,808 (December 31, 2016: 124,484).

The Group applied also hedge accounting (fair value hedge) and as at December 31, 2017 has one hedging instrument.

(Amounts in thousands RON)

9. Derivatives and other financial instruments held for trading (continued)

On September 30, 2013, the Bank initiated a macro fair value hedge of interest rate risk associated with the current accounts, using several interest rate swaps (pay variable, receive fixed). The change in the fair value of the macro fair value hedge swaps offsets the change in the fair value of the hedged portion of the current accounts. The hedged item is represented by the portion of the current accounts portfolio equal to the swaps nominal of 83.34 million EUR with a fixed interest rate of 1.058%. The remaining period for the hedging instrument is of 3.2 years.

The hedging relationship was effective throughout the reporting period.

The fair value of hedging instrument for Group and Bank was the following:

	December 31, 2017		
	Assets	Liabilities	Notional
Interest rate swaps	8,215	-	388,339

	December 31, 2016		
	Assets	Liabilities	Notional
Interest rate swaps	13,610	-	473,092

In 2017 the Group recognised a total loss of RON 5,645 resulting from the hedging instrument (2016: RON 1,994 loss) and a gain of RON 4,287 resulting from the hedged item (2016: RON 850 gain).

Forwards
Forward contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market.

Swaps
Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as an interest rate, foreign currency rate or equity index.

Interest rate swaps relate to contracts concluded by the Group with other financial institutions in which the Group either receives or pays a floating rate of interest in return for paying or receiving, respectively, a fixed rate of interest. The payment flows are usually netted against each other, with the difference being paid by one party to the other.

In a currency swap, the Group pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross–settled.

Options
Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

The Bank purchases and sells options in the over-the-counter markets. Options purchased by the Bank provide the Bank with the opportunity to purchase (call options) or sell (put options) the underlying asset at an agreed-upon value either on or before the expiration of the option.

The Bank is exposed to credit risk on purchased options only to the extent of their carrying amount, which is their fair value.

(Amounts in thousands RON)

9. Derivatives and other financial instruments held for trading (continued)

Options written by the Bank provide the purchaser the opportunity to purchase from or sell to the Bank the underlying asset at an agreed-upon value either on or before the expiration of the option. The options are kept in order to neutralize the customer deals.

Trading treasury notes are treasury discount notes and coupon bonds held for trading purposes. All the treasury notes are issued by the Romanian Government in RON, EUR and USD.

10. Loans and advances to customers

	Group		Bank	
	December 31, 2017	**December 31, 2016**	**December 31, 2017**	**December 31, 2016**
Loans, gross	32,088,555	31,414,527	31,418,550	30,885,456
Loans impairment	(2,480,133)	(3,575,822)	(2,406,625)	(3,501,346)
Total	**29,608,422**	**27,838,705**	**29,011,925**	**27,384,110**

The loans structure is the following:

	Group		Bank	
	December 31, 2017	**December 31, 2016**	**December 31, 2017**	**December 31, 2016**
Working capital loans	4,763,825	4,686,250	4,763,825	4,686,250
Loans for equipment	3,776,208	4,944,079	3,671,831	4,888,549
Trade activities financing	718,741	472,395	718,741	472,395
Acquisition of real estate, including mortgage for individuals	11,683,546	10,331,907	11,683,546	10,331,907
Consumer loans	8,690,507	8,450,809	8,124,879	7,977,268
Other	2,455,728	2,529,087	2,455,728	2,529,087
Total	**32,088,555**	**31,414,527**	**31,418,550**	**30,885,456**

As of December 31, 2017, balances relating to factoring, both for Group and Bank, amount to 712,537 (December 31, 2016: 462,208) and those relating to discounting 6,118 (December 31, 2016: 10,147).

As of December 31, 2017 the amortized cost of loans granted to the 20 largest corporate clients of the Group and Bank (groups of connected borrowers) amounts to 2,271,528 (December 31, 2016: 1,883,730), while the value of letters of guarantee and letters of credit issued in favour of these clients amounts for the Group and Bank to 4,523,077 (December 31, 2016: 5,042,356).

(Amounts in thousands RON)

10. Loans and advances to customers (continued)

Impairment allowance for loans

	Group			Bank		
	Specific impairment		Collective impairment	Specific impairment		Collective impairment
	Retail lending	Corporate lending	Retail&Corporate	Retail lending	Corporate lending	Retail&Corporate
Balance as of December 31, 2015	**948,076**	**2,773,208**	**281,281**	**889,117**	**2,773,208**	**273,494**
Increases due to amounts set aside for estimated loan losses during the period	570,228	1,197,475	316,497	553,322	1,197,475	314,005
Decreases due to amounts reversed for estimated loan losses during the period	(371,004)	(1,156,118)	(120,231)	(371,002)	(1,156,118)	(120,231)
Decreases due to amounts taken against allowances	(342,210)	(530,880)	-	(330,545)	(530,880)	-
Foreign exchange losses	(2,467)	9,866	2,101	(2,467)	9,866	2,101
Balance as of December 31, 2016	**802,623**	**2,293,551**	**479,648**	**738,425**	**2,293,551**	**469,369**
Increases due to amounts set aside for estimated loan losses during the period	569,525	725,722	226,556	546,836	724,972	225,513
Decreases due to amounts reversed for estimated loan losses during the period	(395,803)	(941,291)	(163,205)	(393,579)	(941,291)	(163,205)
Decreases due to amounts taken against allowances	(288,144)	(857,776)	-	(264,917)	(857,776)	-
Foreign exchange (gain) / losses	5,606	19,963	3,158	5,606	19,963	3,158
Balance as of December 31, 2017	**693,807**	**1,240,169**	**546,157**	**632,371**	**1,239,419**	**534,835**

Impaired loans

	Group		Bank	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Impaired loans 90 days past due and more	1,643,057	2,722,628	1,567,677	2,647,139
Provisions for impaired loans 90 days past due and more	(1,386,186)	(2,289,199)	(1,324,728)	(2,225,001)
Impaired loans less than 90 days past due	967,242	1,306,115	967,242	1,306,115
Provisions for impaired loans less than 90 days past due	(547,790)	(806,977)	(547,062)	(806,977)
Net impaired loans	**676,323**	**932,567**	**663,129**	**921,276**

The value of loans individually determined to be impaired for the Group is 2,610,299 (December 31, 2016: 4,028,744), while for the Bank is 2,534,919 (December 31, 2016: 3,953,253).

(Amounts in thousands RON)

11. Lease receivables

The Group acts as a lessor through the subsidiary BRD Sogelease IFN SA having in the portfolio vehicles, equipment (industrial, agricultural) and real estate. The leases are denominated mainly in EUR and RON, with transfer of ownership of the leased asset at the end of the lease term. The receivables are secured by the underlying assets and by other collateral. The payment timing analysis of lease receivables is as follows:

	Group	
	December 31, 2017	**December 31, 2016**
Gross investment in finance lease:		
Under 1 year	323,877	278,738
Between 1 and 5 years	543,098	533,031
Higher than 5 years	16,333	16,614
	883,308	**828,383**
Unearned finance income	(61,949)	(65,947)
Net investment in finance lease	**821,359**	**762,436**
Net investment in finance lease:		
Under 1 year	295,727	249,208
Between 1 and 5 years	510,108	497,698
Higher than 5 years	15,524	15,530
	821,359	**762,436**

	December 31, 2017	**December 31, 2016**
Net investment in the lease	821,359	762,436
Accumulated allowance for uncollectible minimum lease payments receivable	(93,591)	(98,919)
Total	**727,768**	**663,517**

The guarantees relating to finance lease receivables individually determined to be impaired as at December 31, 2017 amounts to 52,732 (December 31, 2016: 59,957). The amounts are capped to the gross exposure level. The value of finance lease receivables individually determined to be impaired is 99,598 (December 31, 2016: 108,994).

As at December 31, 2017 and December 31, 2016, the future minimum lease receipts regarding operating leases (rents) concluded by the Group and Bank as a lessor are:

	Group		Bank	
	December 31, 2017	**December 31, 2016**	**December 31, 2017**	**December 31, 2016**
Less than one year	1,444	1,800	1,444	1,800
Between one and five years	4,441	5,490	4,441	5,490
More than five years	4,156	6,351	4,156	6,351
	10,041	**13,641**	**10,041**	**13,641**

(Amounts in thousands RON)

12. Financial assets available for sale

	Group		Bank	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Treasury notes	12,036,572	11,517,101	12,036,572	11,517,101
Equity investments	35,459	26,279	35,459	26,279
Other securities	63,342	66,475	41,661	41,620
Total	**12,135,373**	**11,609,855**	**12,113,692**	**11,585,000**

Treasury notes

Treasury notes consist of treasury discount notes and coupon bonds issued by the Ministry of Public Finance, rated as BBB- by Standard&Poors. As of December 31, 2017 no treasury notes have been pledged for repo transactions (as of December 31, 2016 no treasury notes have been pledged for repo transactions).

Equity investments

Other equity investments represent shares in Romanian Commodities Exchange, Bucharest Clearing House (the former Romanian Securities Clearing and Depository Company), Depozitarul Central S.A. (Shareholders' Register for the National Securities Commission), Fondul Roman de Garantare a Creditelor pentru Intreprinzatorii Privati SA, Romanian Clearing House (SC Casa Romana de Compensatie SA), Investor Compensating Fund (Fondul de Compensare a Investitorilor), TransFond, Bucharest Stock Exchange, Visa Inc, SWIFT.

Other securities

The Group holds funds units in:

	Group		
December 31, 2017	**Unit value**	**No of units**	**Market value**
BRD Simfonia	40	450,681	18,068
BRD Obligatiuni	164	21,980	3,613
BRD Diverso	171	127,578	21,872
BRD Actiuni	183	93,548	17,123
BRD Index	161	16,594	2,666
Total		**710,381**	**63,342**

	Group		
December 31, 2016	**Unit value**	**No of units**	**Market value**
BRD Simfonia	40	534,231	21,238
BRD Obligatiuni	165	21,980	3,617
BRD Diverso	156	150,878	23,581
BRD Actiuni	152	101,798	15,483
BRD Index	129	19,794	2,556
Total		**828,681**	**66,475**

(Amounts in thousands RON)

12. Financial assets available for sale (continued)

The Bank holds fund units in:

	Bank		
December 31, 2017	**Unit value**	**No of units**	**Market value**
BRD Diverso	171	127,578	21,872
BRD Actiuni	183	93,548	17,123
BRD Index	161	16,594	2,666
Total		**237,720**	**41,661**

	Bank		
December 31, 2016	**Unit value**	**No of units**	**Market value**
BRD Diverso	156	150,878	23,581
BRD Actiuni	152	101,798	15,483
BRD Index	129	19,794	2,556
Total		**272,470**	**41,620**

(Amounts in thousands RON)

13. Investments in subsidiaries and associates

Group

Associates	%	December 31, 2016	Increase / (decrease) in net assets	December 31, 2017
ALD Automotive	20.00%	16,379	(394)	15,985
Mobiasbanca Groupe Societe Generale S.A.	20.00%	56,793	12,254	69,047
BRD Asigurari de Viata SA	49.00%	30,737	4,482	35,219
Fondul de Garantare a Creditului Rural	33.33%	16,670	709	17,379
Biroul de Credit S.A.	16.38%	3,491	40	3,531
BRD Fond de Pensii S.A.	49.00%	8,236	1,366	9,602
BRD Sogelease Asset Rental SRL	20.00%	1,766	(669)	1,097
		134,072	**17,788**	**151,860**

Group

Associates	%	December 31, 2015	Additions/ Reclassifications	Increase / (decrease) in net assets	December 31, 2016
ALD Automotive	20.00%	17,550	-	(1,171)	16,379
Mobiasbanca Groupe Societe Generale S.A.	20.00%	49,595	-	7,198	56,793
BRD Asigurari de Viata SA	49.00%	27,613	-	3,124	30,737
Fondul de Garantare a Creditului Rural	33.33%	15,717	-	953	16,670
Biroul de Credit S.A.	16.38%	3,272	-	219	3,491
BRD Fond de Pensii S.A.	49.00%	6,298	1,470	467	8,236
BRD Sogelease Asset Rental SRL	20.00%	1,742	-	24	1,766
		121,787	**1,470**	**10,814**	**134,072**

(Amounts in thousands RON)

13. Investments in subsidiaries and associates (continued)

Bank

	%	December 31, 2016	Disposals	December 31, 2017
ALD Automotive	20.00%	11,873	-	11,873
Mobiasbanca Groupe Societe Generale S.A.	20.00%	29,017	-	29,017
BRD Asigurari de Viata SA	49.00%	17,697	-	17,697
Fondul de Garantare a Creditului Rural	33.33%	14,220	-	14,220
Biroul de Credit S.A.	16.38%	729	-	729
BRD Fond de Pensii S.A.	49.00%	16,160	-	16,160
Associates		**89,696**	**-**	**89,696**
BRD Sogelease IFN SA	99.98%	11,558	-	11,558
BRD Finance Credite de Consum IFN SA	49.00%	53,019	-	53,019
BRD Asset Management SAI SA	99.98%	4,321	-	4,321
Subsdiaries		**69,301**	**403**	**68,898**
Total associates and subsidiaries		**158,997**	**403**	**158,594**

(Amounts in thousands RON)

13. Investments in subsidiaries and associates (continued)

Bank

	%	December 31, 2015	Additions/ Reclassifications	December 31, 2016
ALD Automotive	20.00%	11,873	-	11,873
Mobiasbanca Groupe Societe Generale S.A.	20.00%	29,017	-	29,017
BRD Asigurari de Viata SA	49.00%	17,697	-	17,697
Fondul de Garantare a Creditului Rural	33.33%	14,220	-	14,220
Biroul de Credit S.A.	16.38%	729		729
BRD Fond de Pensii S.A.	49.00%	14,690	1,470	16,160
Associates		**88,226**	**1,470**	**89,696**
BRD Sogelease IFN SA	99.98%	11,558	-	11,558
BRD Finance Credite de Consum IFN SA	49.00%	53,019	-	53,019
BRD Asset Management SAI SA	99.98%	4,321	-	4,321
BRD Corporate Finance SRL	100.00%	403	-	403
Subsdiaries		**69,301**	**-**	**69,301**
Total associates and subsidiaries		**157,527**	**1,470**	**158,997**

(Amounts in thousands RON)

13. Investments in subsidiaries and associates (continued)

The subsidiaries and associate summary of financial position and income statement as at December 31, 2017 are as follows:

2017	%	Current assets	Non-current assets	Net assets	% of net assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities	Revenue	Net profit/(loss)
Subsidiaries											
BRD Sogelease IFN SA	99.98%	132,150	944,556	218,252	n/a	1,076,706	57,170	801,284	858,454	45,002	23,474
BRD Finance Credite de Consum IFN SA	49.00%	601,266	2,319	105,919	n/a	603,585	97,806	399,860	497,666	96,753	16,106
BRD Asset Management SAI SA	99.98%	25,978	419	24,028	n/a	26,397	2,369	-	2,369	11,654	5,727
Associate											
ALD Automotive	20.00%	43,980	440,277	79,924	15,985	484,257	34,365	369,968	404,333	259,038	10,388
Mobiasbanca Groupe Societe Generale S.A.	20.00%	1,120,974	1,186,914	345,243	69,047	2,307,888	22,806	1,939,839	1,962,645	254,367	59,348
BRD Asigurari de Viata SA	49.00%	214,485	62,847	71,877	35,219	277,332	112,419	93,036	205,455	134,721	25,949
Fondul de Garantare a Creditului Rural	33.33%	718,411	9,507	52,130	17,379	727,918	59,825	615,963	675,788	20,345	5,408
Biroul de Credit S.A.	16.38%	12,993	8,922	21,574	3,531	21,915	341	-	341	13,515	6,917
BRD Fond de Pensii S.A.	49.00%	6,583	18,809	19,594	9,602	25,392	5,798	-	5,798	16,237	3,157
BRD Sogelease Asset Rental SRL	20.00%	19,180	111,367	5,485	1,097	130,547	3,981	121,081	125,062	33,923	(8,122)
Total					**151,860**						

The information as at December 31, 2017 regarding subsidiaries and associates are preliminary and not audited.

2016	%	Current assets	Non-current assets	Net assets	% of net assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities	Revenue	Net profit/(loss)
Subsidiaries											
BRD Sogelease IFN SA	99.98%	397,498	494,005	206,456	n/a	891,503	268,667	416,380	685,047	40,369	15,322
BRD Finance Credite de Consum IFN SA	49.00%	41,658	509,953	99,956	n/a	551,611	309,250	142,405	451,655	69,514	11,705
BRD Asset Management SAI SA	99.98%	28,617	151	26,926	n/a	28,768	1,842	-	1,842	14,084	8,564
Associate											
ALD Automotive	20.00%	32,121	367,923	81,895	16,379	400,044	129,558	188,591	318,149	242,055	21,143
Mobiasbanca Groupe Societe Generale S.A.	20.00%	1,393,004	566,720	283,974	56,793	1,959,724	1,577,015	98,735	1,675,750	135,795	66,191
BRD Asigurari de Viata SA	49.00%	181,035	57,404	62,730	30,737	238,439	77,849	97,860	175,709	124,728	15,928
Fondul de Garantare a Creditului Rural	33.33%	724,282	-	50,004	16,670	724,282	51,558	622,720	674,278	25,746	3,834
Biroul de Credit S.A.	16.38%	14,171	7,467	21,322	3,490	21,638	316	-	316	13,900	6,280
BRD Fond de Pensii S.A.	49.00%	14,816	6,277	16,807	8,236	21,093	4,286	-	4,286	14,026	322
BRD Sogelease Asset Rental SRL	20.00%	14,473	101,797	8,828	1,766	116,270	4,828	102,614	107,442	29,580	(1,112)
Total					**134,071**						

(Amounts in thousands RON)

14. Properties, plant and equipment and Investment properties

	Group					
	Land & Buildings	**Investment properties**	**Office equipments**	**Materials and other assets**	**Construction in progress**	**Total**
Cost:						
as of December 31, 2015	**1,326,615**	**29,281**	**264,546**	**530,490**	**16,518**	**2,167,450**
Additions	1,108	-	64	6,624	76,762	84,558
Transfers	6,572	-	20,736	22,862	(50,170)	0
Disposals	(6,275)	-	(47,193)	(32,121)	(7,637)	(93,226)
as of December 31, 2016	**1,328,020**	**29,281**	**238,153**	**527,855**	**35,473**	**2,158,782**
Additions	802	-	1,504	4,055	91,110	97,471
Transfers	10,102	(15)	21,616	45,835	(77,538)	0
Disposals	(16,882)	(27)	(20,362)	(24,194)	6,274	(55,191)
as of December 31, 2017	**1,322,042**	**29,239**	**240,911**	**553,551**	**55,319**	**2,201,062**
Depreciation and impairment:						
as of December 31, 2015	**(638,142)**	**(13,948)**	**(212,382)**	**(436,381)**	**-**	**(1,300,853)**
Depreciation	(45,301)	(1,391)	(21,680)	(22,243)	-	(90,615)
Impairment	(4,488)	-	-	184	-	(4,304)
Disposals	4,786	-	48,623	31,107	-	84,516
as of December 31, 2016	**(683,145)**	**(15,339)**	**(185,439)**	**(427,333)**	**-**	**(1,311,256)**
Depreciation	(43,212)	(1,390)	(23,135)	(25,407)	-	(93,144)
Impairment	(8,074)	-	-	(2,559)	-	(10,633)
Disposals	16,113	29	20,683	22,608	-	59,433
as of December 31, 2017	**(718,318)**	**(16,700)**	**(187,891)**	**(432,691)**	**-**	**(1,355,600)**
Net book value:						
as of December 31, 2015	**688,473**	**15,333**	**52,164**	**94,109**	**16,518**	**866,597**
as of December 31, 2016	**644,875**	**13,942**	**52,714**	**100,522**	**35,473**	**847,526**
as of December 31, 2017	**603,724**	**12,539**	**53,020**	**120,860**	**55,319**	**845,462**

(Amounts in thousands RON)

14. Properties, plant and equipment and Investment properties (continued)

Bank

	Land & Buildings	Investment properties	Office equipments	Materials and other assets	Construction in progress	Total
Cost:						
as of December 31, 2015	**1,316,516**	**29,285**	**254,202**	**529,757**	**16,518**	**2,146,278**
Additions	1,106	-	39	6,541	76,761	84,447
Transfers	6,572	-	20,736	22,862	(50,169)	0
Disposals	(6,275)	-	(47,675)	(32,055)	(7,637)	(93,642)
as of December 31, 2016	**1,317,919**	**29,285**	**227,302**	**527,103**	**35,473**	**2,137,082**
Additions	802	-	1,465	4,055	91,110	97,432
Transfers	10,103	(15)	21,616	45,835	(77,539)	0
Disposals	(16,882)	(27)	(20,134)	(24,044)	6,274	(54,813)
as of December 31, 2017	**1,311,942**	**29,243**	**230,249**	**552,949**	**55,318**	**2,179,701**
Depreciation and impairment:						
as of December 31, 2015	**(634,126)**	**(13,948)**	**(203,359)**	**(435,880)**	**-**	**(1,287,313)**
Depreciation	(45,061)	(1,391)	(21,029)	(22,170)	-	(89,651)
Impairment	(4,488)	-	-	184	-	(4,304)
Disposals	4,786	-	47,670	31,069	-	83,525
as of December 31, 2016	**(678,889)**	**(15,339)**	**(176,718)**	**(426,797)**	**-**	**(1,297,743)**
Depreciation	(42,971)	(1,390)	(22,277)	(25,334)	-	(91,972)
Impairment	(8,074)	-	-	(2,559)	-	(10,633)
Disposals	16,113	29	20,169	22,525	-	58,836
as of December 31, 2017	**(713,821)**	**(16,700)**	**(178,826)**	**(432,165)**	**-**	**(1,341,512)**
Net book value:						
as of December 31, 2015	**682,390**	**15,337**	**50,843**	**93,877**	**16,518**	**858,965**
as of December 31, 2016	**639,030**	**13,946**	**50,584**	**100,306**	**35,473**	**839,339**
as of December 31, 2017	**598,121**	**12,543**	**51,423**	**120,784**	**55,318**	**838,189**

The Group and Bank holds investment property as a consequence of the ongoing rationalisation of its retail branch network. Investment properties comprise a number of commercial properties that are leased to third parties. The investment properties have a fair value of 16,014 as at December 31, 2017 (December 31, 2016: 14,780). The fair value has been determined based on a valuation by an independent valuer in 2017. Rental income from investment property of 1,888 (December 31, 2016: 1,876) has been recognised in other income.

(Amounts in thousands RON)

15. Goodwill

Goodwill represents the excess of the acquisition cost over the fair value of net identifiable assets transferred from Société Générale Bucharest to the Group in 1999.

Following the acquisition, the branch becomes the present Sucursala Mari Clienti Corporativi ("SMCC") – the branch dedicated to large significant clients, most of them taken over from the former Societe Generale Bucharest.

As at December 31, 2017, the branch had a number of 3,801 active customers (2016: 4,116), with loans representing 14% from total loans managed by the network (2016: 14%) and with deposits representing about 17 % of networks' deposits (2016: 17%).

Most of the SMCC non-retail clients are large multinational and national customers.

Taking into account the stable base of clients and the contribution to the bank's net banking income, the branch which generated the goodwill is considered profitable. The Bank has performed an impairment test in 2017. As a result, no need for recording an impairment was identified.

16. Intangible assets

The balance of the intangible assets as of December 31, 2017 and 2016 represents mainly software.

	Group	Bank
Cost:		
as of December 31, 2015	**364,268**	**334,867**
Additions	42,485	41,706
Disposals	146	146
as of December 31, 2016	**406,899**	**376,719**
Additions	51,020	50,289
Disposals	(234)	(234)
as of December 31, 2017	**457,685**	**426,775**
Amortization:		
as of December 31, 2015	**(281,651)**	**(258,653)**
Amortization expense	(34,998)	(31,996)
as of December 31, 2016	**(316,649)**	**(290,649)**
Amortization expense	(34,633)	(32,838)
Disposals	5	(25)
as of December 31, 2017	**(351,277)**	**(323,512)**
Net book value:		
as of December 31, 2015	**82,617**	**76,214**
as of December 31, 2016	**90,250**	**86,070**
as of December 31, 2017	**106,408**	**103,263**

17. Other assets

	Group		Bank	
	December 31, 2017	**December 31, 2016**	**December 31, 2017**	**December 31, 2016**
Advances to suppliers	50,508	49,224	-	-
Sundry debtors	221,514	147,987	212,579	140,662
Prepaid expenses	20,138	23,367	16,969	20,344
Repossessed assets	19,471	11,301	18,113	8,806
Other assets	8,436	8,957	7,687	8,206
Total	**320,067**	**240,836**	**255,348**	**178,018**

(Amounts in thousands RON)

17. Other assets (continued)

The sundry debtors balances is represented mainly by commissions, sundry receivables, dividends to be received and are presented net of an impairment allowance, which at Group level is 112,920 (December 31, 2016: 81,307) and at Bank level is 99,872 (December 31, 2016: 66,075).

Also included in sundry debtors there is an amount of 43,108 (December 31, 2016: 43,108) paid to the fiscal authorities following a tax inspection carried out in 2016; the amount is under litigation with the authorities and the Bank estimates that is more likely than not that it will win the litigation.

As of December 31, 2017 the carrying value of repossessed assets for Group is 19,471 (December 31, 2016: 11,301). As of December 31, 2017 the carrying value of repossessed assets for Bank is 18,113 (December 31, 2016: 8,806), representing five residential buildings. (December 31, 2016: four residential buildings).

18. Due to banks

	Group		Bank	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Demand deposits	767,725	379,295	767,725	379,295
Term deposits	118,245	152,306	118,245	152,306
Due to banks	**885,970**	**531,601**	**885,970**	**531,601**

19. Due to customers

	Group		Bank	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Demand deposits	27,565,993	24,284,279	27,707,427	24,325,745
Term deposits	16,653,693	17,908,470	16,679,881	17,964,993
Due to customers	**44,219,686**	**42,192,749**	**44,387,308**	**42,290,738**

Term deposits refer to all deposits with initial maturities over 3 days.

20. Borrowed funds

	Group		Bank	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Borrowings from related parties	920,027	869,522	23,665	26,445
Borrowings from international financial institutions	332,203	231,354	24,640	111,324
Borrowings from other institutions	225	371	225	371
Other borrowings	0	311	0	311
Total	**1,252,455**	**1,101,558**	**48,530**	**138,451**

The maturity structure and the re-pricing gap of the borrowings are presented in Note 42.
Other funds borrowed from related parties are senior unsecured and are used in the normal course of business.

(Amounts in thousands RON)

21. Taxation

Current income tax is calculated based on the taxable income as per the tax statement derived from the stand alone accounts of each consolidated entity. As at December 31, 2017 the Group has a current tax liability in total amount of 103,581 (December 31, 2016: 142,082).

The deferred tax liability/asset is reconciled as follows:

	Group December 31, 2017			
	Temporary differences	**Consolidated Statement of Financial Position Asset / (Liability)**	**Consolidated Income Statement (Expense) / Income**	**Consolidated OCI (Expense) / Income**
Deferred tax liability				
Defined benefit obligation	5,487	878	-	(44)
Investments and other securities	(84,572)	(13,531)	(245)	40,128
Total	**(79,085)**	**(12,653)**	**(245)**	**40,084**
Deferred tax asset				
Tangible and intangible assets	114,345	18,294	3,130	-
Provisions and other liabilities	662,123	105,940	4,262	-
Total	**776,468**	**124,234**	**7,392**	**-**
Taxable items	**697,383**			
Deferred tax		**111,581**	**7,147**	**40,084**

The taxable item in amount of 111,581 represents a deferred tax asset of 112,536 and a deferred tax liability of 955.

	Bank December 31, 2017			
	Temporary differences	**Individual Statement of Financial Position Asset / (Liability)**	**Individual Income Statement (Expense) / Income**	**Consolidated OCI (Expense) / Income**
Deferred tax liability				
Defined benefit obligation	5,487	878	-	(44)
Investments and other securities	(78,603)	(12,577)	-	40,128
Total	**(73,116)**	**(11,699)**	**-**	**40,084**
Deferred tax asset				
Tangible and intangible assets	115,182	18,429	2,989	-
Provisions and other liabilities	642,210	102,754	5,091	-
Total	**757,392**	**121,183**	**8,080**	**-**
Taxable items	**684,276**			
Deferred tax		**109,484**	**8,080**	**40,084**

(Amounts in thousands RON)

21. Taxation (continued)

	Group December 31, 2016			
	Temporary differences	Consolidated Statement of Financial Position Asset / (Liability)	Consolidated Income Statement (Expense) / Income	Consolidated OCI (Expense) / Income
Deferred tax liability				
Defined benefit obligation	5,762	922	-	3,255
Investments and other securities	(333,836)	(53,414)	(171)	19,736
Total	**(328,074)**	**(52,492)**	**(171)**	**22,991**
Deferred tax asset				
Tangible and intangible assets	94,780	15,164	2,143	-
Provisions and other liabilities	635,481	101,677	20,731	-
Total	**730,261**	**116,841**	**22,874**	-
Taxable items	**402,187**			
Deferred tax		**64,349**	**22,703**	**22,991**

The taxable item in amount of 64,349 represents a deferred tax asset of 65,060 and a deferred tax liability of 710.

	Bank December 31, 2016			
	Temporary differences	Individual Statement of Financial Position Asset / (Liability)	Individual Income Statement (Expense) / Income	Consolidated OCI (Expense) / Income
Deferred tax liability				
Defined benefit obligation	5,762	922	-	3,255
Investments and other securities	(329,401)	(52,704)	-	19,736
Total	**(323,639)**	**(51,782)**	-	**22,991**
Deferred tax asset				
Tangible and intangible assets	96,502	15,440	1,885	-
Provisions and other liabilities	610,392	97,663	20,860	-
Total	**706,894**	**113,103**	**22,745**	-
Taxable items	**383,255**			
Deferred tax		**61,321**	**22,745**	**22,991**

Movement in deferred tax is as follows:

	Group	Bank
Deferred tax asset, net as of December 31, 2015	**18,655**	**15,584**
Deferred tax recognized in other comprehensive income	22,992	22,992
Deferred tax recognized in profit and loss	22,703	22,745
Deferred tax asset, net as of December 31, 2016	**64,350**	**61,321**
Deferred tax recognized in other comprehensive income	40,084	40,084
Deferred tax recognized in profit and loss	7,147	8,080
Deferred tax asset, net as of December 31, 2017	**111,581**	**109,485**

(Amounts in thousands RON)

21. Taxation (continued)

	Group		Bank	
	2017	2016	2017	2016
Profit before income tax	**1,672,151**	**906,569**	**1,629,595**	**863,319**
Income tax (16%)	267,544	145,051	260,735	138,131
Fiscal credit	(13,717)	(15,912)	(13,496)	(15,784)
Non-deductible elements	16,601	25,356	12,074	22,562
Non-taxable elements	(12,829)	(11,425)	(10,079)	(9,871)
Expense from income tax at effective tax rate	**257,599**	**143,070**	**249,234**	**135,038**
Effective tax rate	15.4%	15.8%	15.3%	15.6%

Recognition of deferred tax asset at Bank level of 109,484 is based on the management's profit forecasts, which indicates that it is probable that future tax profit will be available against which this asset can be utilised.

22. Other liabilities

	Group		Bank	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Sundry creditors	243,712	364,716	168,797	296,541
Other payables to State budget	37,021	31,733	35,588	30,441
Deferred income	19,949	20,093	19,942	20,093
Payables to employees	158,212	147,011	151,224	140,706
Financial guarantee and loan contracts provisions	419,585	444,888	447,154	474,031
Other provisions	79,470	19,486	77,591	16,608
Total	**957,949**	**1,027,927**	**900,296**	**978,420**

Sundry creditors are expected to be settled in no more than twelve months after the reporting period.

Payables to employees include, among other, gross bonuses, amounting to 55,842 (2016: 50,323) and post-employment benefits amounting to 78,480 (2016: 74,972).

As at December 31, 2017 "Other provisions" includes mainly transformation cost provision, provisions for litigation and the provision for sale of a loan portfolio, as detailed below.

During 2017 an exceptional charge of RON 29 million corresponding to transformation costs was anticipated over the next three years. The program of transformation BRD is embarking on will lead to an enhanced quality of service for the clients and increased operational efficiency. The variation over three years will be -18% in number of branches.

Other provisions were booked during 2017 due to the potential liabilities related to the sale of a loans portfolio of RON 5.1 million net book value. In this case the Bank could reimburse the maximum amount of approximately 20.1 million RON as a result of the identification by the transferee of some loans for which recovery is not possible. The transferred exposures were depreciated at the date of transfer and the contractual maturity expired before the transfer date. The period during which the bank is forced to pay the indemnities for irrecoverable claims is 3 years from the date of the transfer of receivables.

(Amounts in thousands RON)

22. Other liabilities (continued)

The movement in other provisions is as follows:

Group	
Carrying value as of December 31,2015	**17,636**
Additional expenses	6,825
Reversals of provisions	(4,975)
Carrying value as of December 31,2016	**19,486**
Additional expenses	75,907
Reversals of provisions	(15,923)
Carrying value as of December 31, 2017	**79,470**

Bank	
Carrying value as of December 31,2015	**16,475**
Additional expenses	5,010
Reversals of provisions	(4,877)
Carrying value as of December 31,2016	**16,608**
Additional expenses	74,846
Reversals of provisions	(13,863)
Carrying value as of December 31, 2017	**77,591**

The movement in financial guarantee and loan contracts provisions is as follows:

Group	
Carrying value as of December 31,2015	**306,248**
Additional expenses	554,188
Reversals of provisions	(417,693)
Foreign exchange losses	2,145
Carrying value as of December 31,2016	**444,888**
Additional expenses	598,427
Reversals of provisions	(628,224)
Foreign exchange (gain)	4,494
Carrying value as of December 31, 2017	**419,585**

Bank	
Carrying value as of December 31,2015	**338,848**
Additional expenses	550,731
Reversals of provisions	(417,693)
Foreign exchange losses	2,145
Carrying value as of December 31,2016	**474,031**
Additional expenses	596,853
Reversals of provisions	(628,224)
Foreign exchange (gain)	4,494
Carrying value as of December 31, 2017	**447,154**

Post-employment benefit plan

This is a defined benefit plan under which the amount of benefit that an employee is entitled to receive on retirement depends on years of service and salary. The plan covers substantially all the employees and the benefits are not funded. A full actuarial valuation by a qualified independent actuary is carried out annually.

Reserves from defined pension plan are in total amount of -4,421 as at December 31, 2017 (December 31, 2016: -4,650), during the year the Bank registered gain on pension plan in total amount of 229 (December 31, 2016: loss 17,092).

(Amounts in thousands RON)

22. Other liabilities (continued)

Expenses recognised in profit and loss

	2017	2016
Total service cost	3,593	2,226
Interest cost on benefit obligation	1,195	1,022
Net benefit expense	**4,788**	**3,248**

Movement in defined benefits obligations

	December 31, 2017	December 31, 2016
Opening defined benefit obligation	**74,972**	**52,218**
Total service cost	3,593	2,226
Benefits paid	(1,007)	(841)
Interest cost on benefit obligation	1,195	1,022
Actuarial (gains) / losses arising from changes in demographic assumptions	(1,209)	28,861
Actuarial (gains) / losses arising from changes in financial assumptions	936	(8,514)
Closing defined benefit obligation	**78,480**	**74,972**

Main actuarial assumptions

	December 31, 2017	December 31, 2016
Discount rate	1.60%	1.60%
Long term inflation rate	1.79%	1.75%
Salary increase rate	2.79%	3.00%
Average remaining working period (years)	12.33	13.38

	December 31, 2017	December 31, 2016
Experience adjustment	(292)	974
Change in assumptions	-	(4,951)

Sensitivities on the defined benefit obligation

The results of any valuation depend upon the assumptions employed. Significant actuarial assumptions for the determination of the defined obligation are discount rate and expected salary increase.

The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

- If the discount rate used were 0.5% higher, then the defined benefit obligation would be lower by about 7.85% meaning 72,319.
- If the discount rate used were 0.5% lower, then the defined benefit obligation would be higher by about 8.75% meaning 85,347.
- If the salary increase rate used were 0.5% higher, then the defined benefit obligation would be higher by about 8.83% meaning 85,409.

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognised in the statement of financial position.

The eventual cost of providing the benefits depends on the actual future experience. Other factors such as the number of new employees could also change the cost.

(Amounts in thousands RON)

23. Share capital

The nominal share capital, as registered with the Registry of Commerce is 696,901 (2016: 696,901). Included in the share capital there is an amount of 1,818,721 (2016: 1,818,721) representing hyper inflation restatement surplus.

Share capital as of December 31, 2017 represents 696,901,518 (2016: 696,901,518) authorized common shares, issued and fully paid. The nominal value of each share is RON 1 (2016: RON 1).

During 2017 and 2016, the Bank did not buy back any of its own shares.

24. Interest and similar income

	Group		Bank	
	2017	**2016**	**2017**	**2016**
Interest on loans	1,527,438	1,506,460	1,403,219	1,389,680
Interest on deposit with banks	12,761	12,825	11,813	11,328
Interest on available for sale	314,260	281,765	314,260	281,765
Interest from hedging instruments	5,675	6,457	5,675	6,457
Total	**1,860,134**	**1,807,507**	**1,734,967**	**1,689,231**

The interest income on loans includes the accrued interest on net (after impairment allowance) impaired loans in amount of 115,353 for Group and 92,125 for Bank (2016: 127,479 for Group and 115,815 for Bank).

25. Interest and similar expense

	Group		Bank	
	2017	**2016**	**2017**	**2016**
Interest on term deposits	103,427	163,522	105,542	166,705
Interest on demand deposits	23,723	37,537	23,734	37,543
Interest on borrowings	13,612	19,978	1,335	3,487
Total	**140,762**	**221,037**	**130,611**	**207,735**

26. Fees and commissions, net

	Group		Bank	
	2017	**2016**	**2017**	**2016**
Services	633,066	641,942	621,327	627,793
Management fees	112,290	107,353	112,290	107,353
Packages	49,043	50,777	49,043	50,777
Transfers	110,197	129,068	110,197	129,068
OTC withdrawal	63,982	67,351	63,982	67,351
Cards	203,918	202,191	203,918	202,191
Brokerage and custody	30,689	25,587	30,689	25,587
Other	62,947	59,615	51,208	45,466
Loan activity	100,426	97,980	75,413	76,484
Off balance sheet	29,551	32,744	29,550	32,744
Total	**763,043**	**772,666**	**726,290**	**737,021**

(Amounts in thousands RON)

27. Gain / (Loss) on derivative and other financial instruments held for trading

	Group		Bank	
	2017	2016	2017	2016
Gain on instruments held for trading	10,142	13,394	9,962	12,937
Gain / (loss) on interest rate derivatives	(4,318)	(2,355)	(4,318)	(2,355)
Gain on currency and interest swap	(99,568)	44,387	(99,568)	44,387
Gain on forward foreign exchange contracts	(14,695)	10,554	(14,695)	10,554
Gain on currency options	4,215	4,137	4,215	4,137
Gain / (loss) on hedging	(1,358)	(1,144)	(1,358)	(1,144)
Other	3,286	4,258	3,286	4,258
Total gain on derivative and other financial instruments held for trading	**(102,296)**	**73,231**	**(102,476)**	**72,774**

28. Foreign exchange gain

	Grup		Banca	
	2017	2016	2017	2016
Foreign exchange income	20,485,169	20,879,221	20,446,213	20,842,716
Foreign exchange expenses	(20,125,786)	(20,700,105)	(20,087,673)	(20,664,016)
Total	**359,383**	**179,116**	**358,540**	**178,700**

29. Income from associates

	Grup		Banca	
	2017	2016	2017	2016
Share of increase in net profits from associates	32,149	27,752	-	-
Dividends from associates	-	-	19,059	16,939
Total	**32,149**	**27,752**	**19,059**	**16,939**

30. Other income

Other income of the Bank includes dividends from subsidiaries in amount of 24,603 as of December 30, 2017 (December 31, 2016: 11,158), income from banking activities offered to the clients and income from non-banking activities, such as income from rentals. The income from rental of investment properties, for the Bank, is 1,888 (2016: 1,876).

31. Contribution to Deposit Guarantee Fund and Bank Resolution Fund

According to the Romanian legislation (Law no. 311/2015 on Deposit Guarantee Schemes and the Bank Deposit Guarantee Fund), the deposits of individuals and certain entities, including small and medium enterprises and large companies are covered up to EUR 100,000 by the Bank Deposit Guarantee Fund ("Fund").

Each credit institution participating to deposit guarantee scheme shall pay the annual contribution as determined and notified by the Fund. The amount of the contribution refers to the total covered deposits at the end of the previous year and reflects also the degree of risk associated to each credit institution in the scheme.

The degree of risk is determined based on the financial and prudential indicators reported by the credit institutions to the National Bank of Romania. For this purpose, the Bank Deposits Guarantee Fund uses a methodology approved by the National Bank of Romania considering also the guidelines issued by the European Banking Authority.

For the year ended December 31, 2017 the expense related to the Deposit Guarantee Fund was 6,957 (December 31, 2016: 47,269).

(Amounts in thousands RON)

31. Contribution to Deposit Guarantee Fund and Bank Resolution Fund (continued)

According to Law no. 312/2015 on recovery and resolution of credit institution and investment firms, each credit institution shall pay an annual contribution to Bank Resolution Fund as determined and notified by the National Bank of Romania.

The National Bank of Romania as the local resolution authority establish the credit institutions annual contributions to Bank Resolution Fund, in compliance with Commission Delegated Regulation EU 2015/63, supplementing Directive 2014/59 of the European Parliament and of the Council with regard to ex ante contributions to resolution financing arrangements.

For the year ended December 31, 2017 the expense related to the Bank Resolution Fund was 63,792 (December 31, 2016: 17,870).

32. Personnel expenses

	Group		Bank	
	2017	**2016**	**2017**	**2016**
Salaries	554,611	504,562	517,950	471,008
Social security	123,024	119,303	115,423	111,755
Bonuses	47,963	45,521	45,640	42,861
Post-employment benefits	3,781	2,407	3,781	2,407
Other	9,774	15,992	8,142	15,060
Total	**739,153**	**687,785**	**690,936**	**643,091**

33. Depreciation, amortisation and impairment on tangible and intangible assets

	Group		Bank	
	2017	**2016**	**2017**	**2016**
Depreciation and impairment	102,387	93,531	101,215	92,565
Amortisation	34,633	34,998	32,838	31,996
Total	**137,020**	**128,529**	**134,053**	**124,561**

The difference between the amount presented in Note 14 and the amount presented in Note 33 represents depreciation of investment property in total amount of 1,390 at Group and Bank level (December 31, 2016: 1,390), included in "Other income" line from the Profit or loss statement.

34. Other operating expense

	Group		Bank	
	2017	**2016**	**2017**	**2016**
Administrative expenses	416,415	397,868	389,042	372,618
Publicity and sponsorships	37,267	33,988	36,217	33,495
Other expenses	72,613	74,264	66,570	70,773
Total	**526,295**	**506,120**	**491,829**	**476,886**

Administrative expenses refer mainly to rentals, maintenance expenses, local taxes and various utilities such as energy and telecommunication. This line also includes audit fees amounting 3,595 for Group (statutory audit in amount of 2,118, assurance services in amount of 305 and other non-assurance services in amount of 1,172) and 3,131 for Bank (statutory audit in amount of 1,702, assurance services in amount of 305 and other non-assurance services in amount of 1,124). Other non-assurance services include also the reporting services required by the NBR regarding IFRS 9.

(Amounts in thousands RON)

34. Other operating expense (continued)

The Group and Bank has operating leases that are cancellable with prior notice much shorter than the remaining contract period and/or with penalties to be paid which are much lower than lease expense for the remaining contract period. For details regarding future minimum lease payments please see Note 37.

Other expenses include mainly corporate and technical assistance with Societe Generale Paris, audit fees, etc.

35. Cost of risk

	Group		Bank	
	2017	2016	2017	2016
Net impairment allowance for loans	20,959	435,964	(752)	417,450
Net impairment allowance for sundry debtors	48,582	38,283	50,598	38,720
Net impairment allowance for risk and charges	30,158	1,686	31,946	(129)
Net impairment allowance for finance lease	2,348	3,567	-	-
Income from recoveries of derecognized receivables	(473,915)	(161,896)	(467,217)	(159,116)
Write-offs & sales of bad debts	43,722	32,866	41,109	31,213
Financial guarantee and loan contracts	(31,371)	133,038	(31,371)	133,038
Total	**(359,517)**	**483,508**	**(375,687)**	**461,176**

Net cost of risk registered a RON 360 million net release due to recoveries on non-retail customers, recognition of insurance indemnities, and gain on sale of non-performing loans portfolio.

36. Cash and cash equivalents for cash flow purposes

For the purpose of the cash flow statements, cash and cash equivalents comprise cash in hand, current accounts and short term placements at other banks. The amounts in transit in amount of 176,714 (December 31, 2016: 169,790) and loans to banks, with more than 90 days maturity from the date of acquisition in amount of 73,266 (December 31, 2016: 91,641) for the Bank and also the ones amounting 92,301 (December 31, 2016: 117,773) for the Group are excluded. The Group and Bank did not include in cash and cash equivalents the amounts representing minimum compulsory reserve held at National Bank of Romania.

Group

	December 31, 2017	December 31, 2016
Cash in hand	1,924,214	1,800,529
Sight deposit with NBR	2,000,125	1,500,021
Current accounts and deposits with banks	2,280,495	1,710,708
Total	**6,204,834**	**5,011,259**

Bank

	December 31, 2017	December 31, 2016
Cash in hand	1,924,188	1,800,506
Sight deposit with NBR	2,000,125	1,500,021
Current accounts and deposits with banks	2,280,488	1,709,902
Total	**6,204,801**	**5,010,428**

For the purpose of consolidated cash flow statement the net expenses from impairment of loans and from provisions are reconciled as follows:

(Amounts in thousands RON)

36. Cash and cash equivalents for cash flow purposes (continued)

Group

	2,017	2,016
Net impairment allowance for loans	20,959	435,964
Net impairment allowance for sundry debtors	48,582	38,283
Net impairment allowance for finance lease	2,348	3,567
Write-offs & sales of bad debts	43,722	32,866
Financial guarantee and loan contracts	(31,371)	133,038
Net movement in other provisions	59,984	1,850
Total	**144,224**	**645,568**

Bank

	2017	2016
Net impairment allowance for loans	(752)	417,450
Net impairment allowance for sundry debtors	50,598	38,720
Write-offs & sales of bad debts	41,109	31,213
Financial guarantee and loan contracts	(31,371)	133,038
Net movement in other provisions	60,983	132
Total	**120,567**	**620,553**

37. Commitments

	Group		Bank	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Tangible non-current assets	3,093	3,464	3,093	3,464
Intangible non-current assets	8,002	8,707	8,002	8,707
Operational leasing, rents and other services	427,747	388,612	427,747	388,612
Total	**438,842**	**400,783**	**438,842**	**400,783**

Guarantees and credit commitments are presented in Note 42.1.

As at December 31, 2017 and December 31, 2016 the future minimum lease payments regarding operating leases and rents concluded by the Group and Bank as a lessee are:

	Group		Bank	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Less than one year	75,574	75,847	75,574	75,847
Between one and five years	199,145	176,391	199,145	176,391
More than five years	149,927	133,986	149,927	133,986
	424,646	**386,224**	**424,646**	**386,224**

(Amounts in thousands RON)

38. Related parties

The Group and Bank enters into related party transactions with its parent, other SG entities, subsidiaries, associates and key management personnel. All related party transactions were made on substantially the same terms, including interest rates and collateral requirements, as those prevailing for similar transactions with unrelated parties. The transactions/balances with subsidiaries were eliminated for consolidation purposes. The transactions/balances with related parties can be summarized as follows:

	Group							
	2017				2016			
	Parent	Other related parties	Associates	Key management of the institution	Parent	Other related parties	Associates	Key management of the institution
Assets	**184,223**	**72,334**	**6,542**	**2,045**	**378,291**	**111,657**	**4,870**	**1,071**
Nostro accounts	22,906	49,464	209	-	27,851	44,533	42	-
Deposits	19,035	-	-	-	26,132	35,726	-	-
Loans	73,266	22,687	3,121	2,042	91,641	24,118	1,789	1,071
Derivative financial instruments	65,776	-	-	3	228,849	-	-	-
Other assets	3,240	183	3,212	-	3,818	7,280	3,039	-
Liabilities	**1,568,160**	**116,356**	**113,416**	**12,101**	**1,329,229**	**63,856**	**110,361**	**16,526**
Loro accounts	2,036	74,278	2,384	-	7,380	30,411	133	-
Deposits	506,382	41,263	110,370	12,095	238,056	20,026	109,472	16,526
Borrowings	920,028	-	-	-	869,511	-	-	-
Derivative financial instruments	102,199	-	-	-	115,285	-	-	-
Other liabilities	37,515	815	662	6	98,997	13,419	756	-
Commitments	**7,578,705**	**75,922**	**5,553**	**478**	**7,480,893**	**154,349**	**7,403**	**282**
Total commitments granted	101,461	8,679	2,012	362	169,493	11,158	2,758	282
Total commitments received	860,774	67,243	3,541	-	904,855	143,191	4,645	-
Notional amount of foreign exchange transactions	4,823,576	-	-	-	4,526,245	-	-	-
Notional amount of interest rate derivatives	1,792,894	-	-	116	1,880,300	-	-	-
Income statement	**(225,002)**	**3,028**	**23,135**	**44**	**23,715**	**(1,546)**	**40,836**	**(78)**
Interest and commision revenues	14,964	2,215	13,185	81	17,826	2,796	12,382	41
Interest and commission expense	17,328	1,061	153	40	19,620	615	439	83
Net gain/(loss) on interest rate derivatives	(11,561)	-	-	3	(31,372)	-	-	-
Net gain/(loss) on foreign exchange derivatives	(159,142)	(116)	-	-	81,782	455	-	-
Dividend income	-	3	19,490	-	-	3	16,939	-
Other income	2,131	304	13,467	-	-	-	69	-
Other expenses	54,066	(1,683)	22,854	-	24,901	4,185	(11,885)	36

(Amounts in thousands RON)

38. Related parties (continued)

	Bank									
	2017					2016				
	Parent	Other related parties	Subsidiaries	Associates	Key management of the institution	Parent	Other related parties	Subsidiaries	Associates	Key management of the institution
Assets	**165,188**	**72,334**	**44,756**	**3,852**	**2,045**	**348,341**	**111,626**	**58,569**	**2,180**	**599**
Nostro accounts	22,906	49,464	-	209	-	27,851	44,533	-	42	-
Deposits	-	-	-	-	-	-	35,726	-	-	-
Loans	73,266	22,687	43,306	3,121	2,042	91,641	24,118	57,350	1,789	599
Derivative financial instruments	65,776	-	3	-	3	228,849	-	17	-	-
Other assets	3,240	183	1,447	522	-	-	7,249	1,202	349	-
Liabilities	**647,477**	**116,339**	**191,343**	**113,375**	**12,101**	**455,446**	**63,066**	**124,568**	**110,316**	**11,988**
Loro accounts	2,036	74,278	-	2,384	-	7,380	30,411	-	133	-
Deposits	506,382	41,263	167,626	110,370	12,095	238,056	20,026	97,992	109,472	11,988
Lease payable	-	-	23,665	-	-	-	-	26,445	-	-
Derivative financial instruments	102,199	-	-	-	-	115,285	-	-	-	-
Other liabilities	36,860	798	52	621	6	94,725	12,629	131	711	-
Commitments	**7,578,705**	**75,922**	**27,622**	**5,553**	**478**	**7,480,893**	**154,349**	**16,746**	**7,403**	**267**
Total commitments granted	101,461	8,679	25,616	2,012	362	169,493	11,158	11,734	2,758	267
Total commitments received	860,774	67,243	-	3,541	-	904,855	143,191	-	4,645	-
Notional amount of foreign exchange transactions	4,823,576	-	2,006	-	-	4,526,245	-	5,012	-	-
Notional amount of interest rate derivatives	1,792,894	-	-	-	116	1,880,300	-	-	-	-
Income statement	**(211,901)**	**2,114**	**49,663**	**12,053**	**44**	**40,024**	**(2,025)**	**21,520**	**30,640**	**(44)**
Interest and commision revenues	14,016	1,304	26,989	336	81	16,330	2,059	12,038	422	32
Interest and commission expense	4,286	1,061	2,662	153	40	4,059	615	3,840	439	40
Net gain/(loss) on interest rate derivatives	(11,561)	-	-	-	3	(31,372)	-	-	-	-
Net gain/(loss) on foreign exchange derivatives	(159,142)	(116)	(262)	-	-	81,782	455	202	-	-
Dividend income	-	3	24,603	19,490	-	-	3	11,158	16,939	-
Other income	2,131	304	2,747	13,396	-	-	-	-	-	-
Other expenses	53,059	(1,680)	1,752	21,016	-	22,657	3,927	(1,962)	(13,718)	36

(Amounts in thousands RON)

38. Related parties (continued)

Other liabilities and other expenses include mainly corporate and technical assistance with Societe Generale Paris.

The Bank has collateral received from SG Paris regarding derivative instruments in total amount of 24,788 as at December 31, 2017 (December 31, 2016: 124,517). The Bank has no provision booked for receivable from related parties.

As of December 31, 2017, the Board of Directors and Managing Committee members own 304,530 shares (2016: 304,530).

Key management personnel benefits for 2017 and 2016:

	Group		Bank	
	December 31, 2017	**December 31, 2016**	**December 31, 2017**	**December 31, 2016**
Short-term benefits	15,582	15,149	11,343	11,256
Long-term benefits	3,088	1,731	2,898	1,731
Termination benefits	-	488	-	-
Share-based payment transactions	-	2	-	2

(Amounts in thousands RON)

39. Interest in unconsolidated structured entities

According to IFRS 12 applied starting with January 1, 2014 the Group and Bank has to present the interests it has in entities that have been designated so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

The Group and Bank has identified the investment funds in which it invested during the years and which manages, as being unconsolidated structured entities. The Group didn't consolidate the investment funds as the management intention is to dispose of the unit funds in the foreseeable future (12 months) and, at the same time, the impact from consolidating them is considered not significant for the users of these financial statements. The structured entities are financed through the resources (unit funds) received from individuals and corporates that are afterwards placed on monetary and capital markets.

Group interest in unconsolidated structured entities and size of structured entities in 2017:

Name of structured enitity	Carrying amount of financial assets recognised in the balance sheet	Of which: liquidity support drawn	Fair value of liquidity support drawn	Carrying amount of financial liabilities recognised in the balance sheet	Nominal amount of off-balance sheet items given by the reporting institution	Of which: Nominal amount of loan commitments given	Losses incurred by the reporting institution in the current period	Maximum exposure to loss	Total balance sheet of the entity (size)
BRD Simfonia	28,487	-	-	72,398	-	-	-	28,487	1,388,942
BRD Obligatiuni	4,584	-	-	6,605	-	-	-	4,584	107,065
BRD Index	2,672	-	-	452	-	-	-	2,672	10,793
BRD Actiuni	17,130	-	-	657	-	-	-	17,130	36,065
BRD Diverso	22,046	-	-	2,965	-	-	-	22,046	42,857

Breakdown of interests in unconsolidated structured entities:

Name of structured enitity	Selected financial assets recognised in the reporting institution's balance sheet						Selected equity and financial liabilites recognised in the reporting institution's balance sheet					Off-balance sheet items given by the reporting institution	
	of which: defaulted	Derivatives	Equity instruments	Debt securities	Loans and advances	Total	Equity instruments issued	Derivatives	Deposits	Debt securities issued	Total	of which: defaulted	Total
BRD Simfonia	-	10,419	18,068	-	-	28,487	-	118	72,398	-	72,516	-	-
BRD Obligatiuni	-	971	3,613	-	-	4,584	-	-	6,605	-	6,605	-	-
BRD Index	-	6	2,666	-	-	2,672	-	-	452	-	452	-	-
BRD Actiuni	-	7	17,123	-	-	17,130	-	-	657	-	657	-	-
BRD Diverso	-	173	21,872	-	-	22,046	-	-	2,965	-	2,965	-	-

(Amounts in thousands RON)

39. Interest in unconsolidated structured entities (continued)

Interest in unconsolidated structured entities and size of structured entities in 2016:

Name of structured enitity	Carrying amount of financial assets recognised in the balance sheet	Of which: liquidity support drawn	Fair value of liquidity support drawn	Carrying amount of financial liabilities recognised in the balance sheet	Nominal amount of off-balance sheet items given by the reporting institution	Of which: Nominal amount of loan commitments given	Losses incurred by the reporting institution in the current period	Maximum exposure to loss	Total balance sheet of the entity (size)
BRD Simfonia	20,816	-	-	108,605	-	-	-	20,816	1,547,012
BRD Obligatiuni	3,617	-	-	12,490	-	-	-	3,617	181,093
BRD Index	2,556	-	-	170	-	-	-	2,556	3,547
BRD Actiuni	15,483	-	-	1,847	-	-	-	15,483	18,017
BRD Diverso	23,581	-	-	581	-	-	-	23,581	27,486

Breakdown of interests in unconsolidated structured entities:

Name of structured enitity	Selected financial assets recognised in the reporting institution's balance sheet						Selected equity and financial liabilites recognised in the reporting institution's balance sheet					Off-balance sheet items given by the reporting institution	
	of which: defaulted	Derivatives	Equity instruments	Debt securities	Loans and advances	Total	Equity instruments issued	Derivatives	Deposits	Debt securities issued	Total	of which: defaulted	Total
BRD Simfonia	-	(422)	21,238	-	-	20,816	-	-	108,605	-	108,605	-	-
BRD Obligatiuni	-	-	3,617	-	-	3,617	-	-	12,490	-	12,490	-	-
BRD Index	-	-	2,556	-	-	2,556	-	-	170	-	170	-	-
BRD Actiuni	-	-	15,483	-	-	15,483	-	-	1,847	-	1,847	-	-
BRD Diverso	-	-	23,581	-	-	23,581	-	-	581	-	581	-	-

(Amounts in thousands RON)

40. Contingencies

As of December 31, 2017 BRD is the defendant in a number of lawsuits arising in the course of business, amounting to approximately 204,058 (December 31, 2016: 63,408). The amounts disclosed represent the additional potential loss in the event of a negative court decision, the amounts not being provisioned. The management believes that the ultimate resolution of these matters will not have a material adverse effect on the Group's overall financial position and performance. The Bank already booked a provision of 18,576 (December 31, 2016: 16,608) and the Group 20,456 (December 31, 2016: 19,486) in relation with the litigations.

41. Earnings per share

	Group		Bank	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Ordinary shares on the market	696,901,518	696,901,518	696,901,518	696,901,518
Profit attributable to shareholders	1,406,360	757,530	1,380,384	728,281
Earnings per share (in RON)	2.0180	1.0870	1.9807	1.0450

Basic earnings per share are calculated by dividing net profit/ (loss) for the reporting period attributable to ordinary equity holders of the parent by the weighted average number of shares outstanding during the year. As of December 31, 2017 and December 31, 2016 there were no dilutive equity instruments issued by the Group and Bank.

42. Risk management

Risk management within the Group and Bank is based on an integrated concept that takes into account the statutory and regulatory norms as defined and required by the National Bank of Romania, Société Générale risk management standards as well as best practices accepted by the banking industry. The level of risk appetite fully reflects the Group's and Bank's risk management strategy, aiming to support a sustainable growth of its lending activities while reinforcing the Bank's and Group's market position.

Risk governance relies on the three lines of defense model, which reinforces segregation of duties between various control functions.
The *first line* of defense is represented by the business units, which are primarily responsible for the ongoing management of the risks arisen in conducting their daily activities, taking into account the Bank's risk appetite and its existing policies, procedures and controls.
The *second line* of defense is represented by the independent functions overseeing risks, which are responsible for further identifying, measuring, monitoring and reporting risks, while ensuring the compliance with internal and external requirements and providing support to the business/operational functions in executing their duties.
The *third line* of defense is represented by the internal audit function which provides independent review and objective assurance on the quality and effectiveness of the Bank's internal control system, the first and second lines of defence and the risk governance framework.

The Group and Bank's risk management governance is centered along the following axes:

- continuous process of identification, assessment, monitoring, reporting and control, considering risk limits, approval competences, segregation of duties and other mitigation techniques;
- risks are taken within the defined risk appetite approved by the Board of Directors
- strong involvement of the Bank's management body in the risk management system and promotion of risk culture, throughout the entire organizational structure, from the Board of Directors down to operational teams;
- clearly defined internal rules and procedures;
- communication of information regarding risk management across the organization in a timely, accurate, comprehensible and meaningful manner;
- continuous supervision by an independent body to monitor risks and to enforce rules and procedures.

The Group and Bank's risk management is organized around two key principles:

- risk assessment departments must be independent from the business divisions;
- the risk management approach and risk monitoring must be consistent throughout the Group and Bank.

The Group and the Bank is exposed to the risks inherent to its core businesses. The main financial assets and liabilities are the loans and advances, lease receivables, amounts placed with NBR, demand and term deposits and borrowings. These instruments are exposed to a series of risks such as credit risk, foreign exchange risk, interest rate risk, liquidity risk and market risk which are discussed below.

42.1 Credit risk

Credit risk represents the loss which the Group and Bank would suffer if a client or counterparty fails to meet its contractual obligations. The credit risk is inherent to traditional banking products - loans, commitments to lend and other contingent liabilities such as letters of credit - and to fair value derivative contracts (refer to the Notes 9, 10, 11, 12 and 40).

42. Risk management (continued)

42.1 Credit risk (continued)

The Group and Bank's credit policy is based on the principle that approval of any credit risk undertaking must rely on a sound knowledge of a given client and its business, an understanding of the purpose and structure of the transaction and the sources of debt repayment. As part of Group Société Générale, the Bank has a cash flow based lending approach, meaning the bank expects debt to be serviced primarily through the future cash flow (legal entities)/ income (individuals) generated by the client.

The Group and Bank assesses the quality of its non retail portfolio by use of Société Générale's rating system, with a scale from 1 to 10 (1 to 7- in bonis exposures, 8 to 10 – defaulted exposures). Within the in bonis portfolio, the most vulnerable counterparts are grouped into a distinct category (referred to as sensitive, rating class 7) which is subject to increased monitoring requirements, in order to improve reactivity through timely implementation of corrective measures.

The internal rating system is based on models that include both quantitative and qualitative assessment criteria, differentiated by counterparty type and size, in which the expert judgment is a key element. Internal models are developed based on the Group and Bank's available data history. The use of rating model is regulated by internal norms and procedures. Rating review is performed at least once per year, or as soon as new and significant aspects impacting the credit quality of the counterparty occur. This process results in the classification of exposures between sound, sensitive and non performing client status.

Throughout the post approval period, the monitoring of counterparties is conducted on a continuous basis, so that potential vulnerabilities can be indentified early and reacted upon. The outcome of monitoring activity is analyzed as an inherent responsibility of commercial and risk structures. Risky counterparts above internally prescribed criteria are closely monitored through dedicated committees, with the aim of defining a strategy towards them and ensuring consistent rating and loss recognition.

Retail counterparties are assessed at origination, based on application scorecards and/or behavioral rating models, and monitored throughout the lifespan of the loans using behavioral rating models.

Security, in the form of collateral (funded protection) or guarantee (unfunded protection), is accepted by the Bank in order to mitigate credit risk and do not serve as a substitute for the borrower's ability to meet obligations. The securities accepted by the Bank in support of granted commitments primarily include real estate, both residential and commercial, guarantees issued by other banks and guarantee funds, equipments and inventories.

Concentration risk related to credit risk is managed primarily through a set of limits established based on the Bank's risk appetite and the expectations on the evolution of the economic environment. The limits are monitored periodically and revised whenever necessary, but at least annually. The set of limits is related to the following dimensions: individual concentration (single name or group of connected clients), economic sector concentration, geographical concentration, concentration by product type/transaction type and credit risk mitigations techniques types.

(Amounts in thousands RON)

42. Risk management (continued)

42.1 Credit risk (continued)

Maximum exposure to credit risk before considering any collaterals or guarantees

	Group	
	December 31, 2017	December 31, 2016
ASSETS		
Due from Central Bank	5,757,953	5,339,460
Due from banks	2,549,512	1,998,271
Derivatives and other financial instruments held for trading	637,686	1,203,282
Loans, gross	32,088,555	31,414,527
Impairment allowance for loans	(2,480,133)	(3,575,822)
Loans and advances to customers	29,608,422	27,838,705
Finance lease receivables	727,768	663,517
Financial assets available for sale	12,036,572	11,517,101
Other assets	199,144	140,530
Total assets	**51,517,057**	**48,700,866**
Letters of guarantee granted	5,257,706	5,785,743
Financing commitments granted	5,395,987	5,979,179
Total commitments granted	**10,653,693**	**11,764,922**
Total credit risk exposure	**62,170,750**	**60,465,788**

	Bank	
	December 31, 2017	December 31, 2016
ASSETS		
Due from Central Bank	5,757,953	5,339,460
Due from banks	2,530,468	1,971,333
Derivatives and other financial instruments held for trading	637,689	1,203,299
Loans, gross	31,418,550	30,885,456
Impairment allowance for loans	(2,406,625)	(3,501,346)
Loans and advances to customers	29,011,925	27,384,110
Financial assets available for sale	12,036,572	11,517,101
Other assets	190,209	133,206
Total assets	**38,128,244**	**47,548,509**
Letters of guarantee granted	5,291,373	5,822,732
Financing commitments granted	4,997,338	5,642,716
Total commitments granted	**10,288,711**	**11,465,448**
Total credit risk exposure	**48,416,955**	**59,013,957**

(Amounts in thousands RON)

42. Risk management (continued)

42.1 Credit risk (continued)

Considering the internal rating quality, the exposures of the counterparties not impaired are split in 4 categories which are defined below:

Very Good – The counterparty is considered to be very reliable. The capacity to service its debt is very strong.

Good – The counterparty is judged to be of good quality. The capacity to service its debt is strong but counterparty is somewhat more sensitive to adverse changes in circumstances and economic conditions.

Rather Good – The counterparty has an average solvency. The ability to service its debt is still sufficient, but more likely to be undermined by unfavourable economic conditions and changes in circumstances.

Sensitive – The counterparty reflected credit behaviour or financial deterioration implying increased credit risk. Timely debt service repayment is uncertain and depends on favourable economic and financial conditions. Close and more frequent monitoring of the client's capacity to service the bank debt is needed, in order to be able to react to a potential deterioration via implementation of corrective measures.

Analysis of due from banks by credit rating

	Group		Bank	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Very good	2,400,725	1,426,697	2,381,681	1,399,759
Good	48,447	487,484	48,447	487,484
Rather good	92,062	73,800	92,062	73,800
Not rated*	8,278	10,290	8,278	10,290
Total	**2,549,512**	**1,998,271**	**2,530,468**	**1,971,333**

*short term exposures, mainly amounts under settlement

Sector analysis of loans granted

	Group		Bank	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Individuals	65.6%	61.7%	65.2%	61.2%
Public administration, education & health	3.7%	4.0%	3.8%	4.1%
Agriculture	1.7%	1.9%	1.5%	1.9%
Manufacturing	6.6%	7.1%	6.8%	7.2%
Transportation, IT&C and other services	2.5%	2.8%	2.4%	2.7%
Trade	5.5%	6.5%	5.6%	6.6%
Constructions	2.8%	3.8%	2.9%	3.9%
Utilities	2.3%	2.4%	2.4%	2.4%
Services	1.1%	1.1%	1.1%	1.1%
Others	3.3%	3.9%	3.3%	3.9%
Financial institutions	4.8%	4.9%	5.0%	5.0%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

(Amounts in thousands RON)

42. Risk management (continued)

42.1 Credit risk (continued)

Sector analysis of loans individually impaired

	Group		Bank	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Individuals	974,925	1,092,612	901,423	1,017,122
Public administration, education & health	47,970	59,677	47,970	59,677
Agriculture	62,004	109,936	61,917	109,936
Manufacturing	326,289	548,368	326,289	548,368
Transportation, IT&C and other services	59,336	178,467	57,544	178,467
Trade	407,725	914,306	407,724	914,305
Constructions	315,032	524,616	315,032	524,616
Utilities	38,398	97,911	38,398	97,911
Services	140,566	193,837	140,566	193,837
Others	237,987	303,305	237,987	303,305
Financial institutions	69	5,709	69	5,709
Total	**2,610,301**	**4,028,744**	**2,534,920**	**3,953,253**

Loans to individuals include mortgage loans, consumer loans and overdrafts.

Ageing analysis of past due but not impaired loans
Group

December 31, 2017

	1 - 30 days	31 to 60 days	61 to 90 days	more than 90 days	Total
Non-retail lending	267,313	5,421	66,192	3,019	341,945
Small business lending	49,032	13,626	3,541	2,939	69,138
Consumer lending	1,118,684	89,088	39,619	18,058	1,265,449
Residential mortgages	1,296,187	160,661	50,223	14,199	1,521,270
Total	**2,731,216**	**268,796**	**159,575**	**38,215**	**3,197,802**

December 31, 2016

	1 - 30 days	31 to 60 days	61 to 90 days	more than 90 days	Total
Non-retail lending	533,404	3,420	2,982	11,633	551,438
Small business lending	48,120	7,848	4,596	2,870	63,435
Consumer lending	1,062,745	73,231	36,593	15,367	1,187,936
Residential mortgages	1,220,858	158,953	52,120	17,548	1,449,478
Total	**2,865,127**	**243,452**	**96,291**	**47,418**	**3,252,289**

Bank

December 31, 2017

	1 - 30 days	31 to 60 days	61 to 90 days	more than 90 days	Total
Non-retail lending	264,477	5,421	66,192	3,019	339,109
Small business lending	47,922	13,445	3,541	2,939	67,847
Consumer lending	1,051,523	89,088	39,619	18,058	1,198,288
Residential mortgages	1,296,187	160,661	50,223	14,199	1,521,270
Total	**2,660,109**	**268,615**	**159,575**	**38,215**	**3,126,514**

(Amounts in thousands RON)

42. Risk management (continued)

42.1 Credit risk (continued)

December 31, 2016

	1 - 30 days	31 to 60 days	61 to 90 days	more than 90 days	Total
Non-retail lending	525,668	3,420	2,858	11,633	543,579
Small business lending	47,594	7,848	4,596	2,870	62,909
Consumer lending	1,003,921	73,231	36,593	15,367	1,129,112
Residential mortgages	1,220,858	158,953	52,119	17,548	1,449,477
Total	**2,798,041**	**243,452**	**96,166**	**47,418**	**3,185,078**

Ageing analysis of past due but not impaired lease receivables for Group

December 31, 2017

	1 - 30 days	31 to 60 days	61 to 90 days	more than 90 days	Total
Non-retail leases	47,567	3,803	5,443	-	56,814
Retail leases	19,928	5,013	2,375	-	27,315
Total	**67,495**	**8,816**	**7,818**	**-**	**84,129**

December 31, 2016

	1 - 30 days	31 to 60 days	61 to 90 days	more than 90 days	Total
Non-retail leases	37,531	5,886	2,169	-	45,586
Retail leases	17,789	4,176	2,048	15	24,028
Total	**55,320**	**10,062**	**4,217**	**15**	**69,614**

The Group and Bank monitors the exposures by considering the number of days past due contaminated at customer level. The amounts included in past due but not impaired and higher than 90 days represent amounts lower than the materiality threshold used for impaired loans classification.

Analysis of collateral coverage

Group

December 31, 2017

	Overdue but not impaired loans	Covered by collaterals & guarantees	Loans neither impaired nor past due	Covered by collaterals & guarantees
Non-retail lending	341,946	113,968	8,442,033	3,567,912
Retail lending	2,855,856	1,501,890	17,838,420	11,421,523
Total	**3,197,802**	**1,615,858**	**26,280,453**	**14,989,435**

December 31, 2016

	Overdue but not impaired loans	Covered by collaterals & guarantees	Loans neither impaired nor past due	Covered by collaterals & guarantees
Non-retail lending	551,439	210,278	7,860,207	3,757,142
Retail lending	2,700,848	1,421,009	16,273,291	10,372,186
Total	**3,252,287**	**1,631,287**	**24,133,498**	**14,129,328**

(Amounts in thousands RON)

42. Risk management (continued)

42.1 Credit risk (continued)

Bank

December 31, 2017

	Overdue but not impaired loans	Covered by collaterals & guarantees	Loans neither impaired nor past due	Covered by collaterals & guarantees
Non-retail lending	339,109	113,968	8,422,311	3,567,912
Retail lending	2,787,405	1,501,890	17,334,804	11,421,523
Total	**3,126,514**	**1,615,858**	**25,757,115**	**14,989,435**

December 31, 2016

	Overdue but not impaired loans	Covered by collaterals & guarantees	Loans neither impaired nor past due	Covered by collaterals & guarantees
Non-retail lending	543,579	210,278	7,879,397	3,757,142
Retail lending	2,641,498	1,421,009	15,867,729	10,372,186
Total	**3,185,077**	**1,631,287**	**23,747,126**	**14,129,328**

Analysis of collateral coverage for leasing Group

December 31, 2017

	Overdue but not impaired	Covered by collaterals & guarantees	Neither impaired nor past due	Covered by collaterals & guarantees
Non-retail leases	56,814	56,605	484,482	480,750
Retail leases	27,316	27,240	153,150	151,976
Total	**84,130**	**83,845**	**637,632**	**632,726**

December 31, 2016

	Overdue but not impaired	Covered by collaterals & guarantees	Neither impaired nor past due	Covered by collaterals & guarantees
Non-retail leases	45,585	45,512	450,708	445,517
Retail leases	24,029	23,948	133,119	132,671
Total	**69,614**	**69,460**	**583,827**	**578,188**

The fair value of properties, letters of guarantee and cash that the Group and the Bank holds as collateral relating to loans individually determined to be impaired as at December 31, 2017 amounts to 1,619,648 (December 31, 2016: 2,493,577). The value of exposures covered by collaterals and guarantees is capped to the gross exposure levels.

(Amounts in thousands RON)

42. Risk management (continued)

42.1 Credit risk (continued)

Analysis of neither impaired nor past due loans by credit rating

	Group		Bank	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Very good	13,484,470	12,123,497	13,527,623	12,182,059
Good	7,230,145	7,331,786	7,222,709	7,325,154
Rather good	3,474,292	2,920,029	3,383,721	2,876,192
Sensitive	1,352,885	1,094,376	1,346,270	1,091,694
Not rated	738,661	663,809	276,792	272,026
Total	**26,280,453**	**24,133,497**	**25,757,115**	**23,747,125**

Loans and advances to customers include also municipal bonds, in amount of 257,311 (December 31, 2016: 263,728), presented in the line "Not rated".

Analysis of neither impaired nor past due lease receivables by credit rating for Group

	December 31, 2017	December 31, 2016
Very good	3,085	1,016
Good	85,333	98,732
Rather good	479,772	432,123
Sensitive	69,442	51,956
Total	**637,632**	**583,827**

(Amounts in thousands RON)

42. Risk management (continued)

42.1 Credit risk (continued)

Guarantees and credit commitments

Guarantees and letters of credit

The Group and Bank issues guarantees and letters of credit for its customers. The primary purpose of letters of credit is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group and Bank will make payments in the event that a customer cannot meet its obligations (delivery of goods, documents submitting, etc) to third parties with which it entered previously into a contractual relationship, carry a similar credit risk as loans.

The market and operational risks on these financial instruments are similar to those arising from granting of loans. In the event of a claim on the Group and Bank as a result of a customer's default on a guarantee these instruments also present a degree of liquidity risk to the Group and Bank.

Credit related commitments

Financing commitments represent unused amounts of approved credit facilities.

The Group and Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. The total outstanding contractual amount of commitments does not necessarily represent future cash requirements, since many of these commitments will expire or be terminated without being funded.

	Group		Bank	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Letters of guarantee granted	5,257,706	5,785,743	5,291,373	5,822,732
Financing commitments granted	5,395,987	5,979,179	4,997,338	5,642,716
Total commitments granted	**10,653,693**	**11,764,922**	**10,288,711**	**11,465,448**
Letters of guarantee received	15,450,515	15,381,026	15,450,515	15,381,026
Financing commitments received	698,955	681,165	698,955	681,165
Total commitments received	**16,149,470**	**16,062,191**	**16,149,470**	**16,062,191**

42. Risk management (continued)

42.2 Market risk

Market risks are the risks of losses arising from unfavorable changes in market parameters of financial instruments (exchange rates, interest rates, securities' prices, commodities etc) and might be incurred both by the trading book transactions and by the banking book positions.

The management of market risks is a continuous process, whose primary aim is to identify and measure the market risks induced by the business activities undergone by the entity.

Trading Book related market risks

The trading business model is mainly driven by the clients' needs and comprises bonds issued by Romanian Government (firm or reversible transactions), forward and swap deals on foreign exchange or interest rate, as well as options on different underlyings (foreign exchange, interest rates and equities).

Although the trading book portfolio generates a small portion of the Bank's entire exposure to market risks, namely interest rate risk and foreign exchange risk, it is monitored separately from the banking book portfolio. The identified risks are further reported to the bank's management and to the Group, ensuring timely distribution of accurate information for decision-making processes.

The risk awareness related to the trading book activity is embraced by all actors pertaining to the Financial Markets Perimeter, several sets of controls, some of them with daily frequency, are undertaken within each unit. The functional independence conferred to the risk line from the business line, translated in an independent follow-up of risks conducted at the Market Risk Department level, guarantees a fair, unbiased picture of BRD's exposure to traded market risks.

The foundation of an efficient management framework addressing market risks relies on the main principles listed below:

- frequent update of the risk management framework, to comply with regulatory requisites, permanently adapted to market evolutions and internal changes;
- ongoing improvement of the market risk practice, aligned with the best market practices;
- validation of valuation techniques used to calculate risks metrics and results;
- defining risk measurement models and provisions for the market risks assumed (reserves);
- authorization of various market risk limits, consistent with the stated market risk appetite;
- approval of the instruments allowed for trading (new products or significant changes);
- involvement in designing the functionalities of the IT systems, data flows and operational procedures;
- monitoring and analyzing exposures and limits compliance, periodical dissemination of essential data mirroring the bank's exposure to market risks to the management bodies.

On an annual basis, the market risk appetite is approved by the Board of Directors, being aligned with the business strategy. The top-down approach transposes this high level indicator into limits, accessible to middle management and executive functions, calibrated on different measurement types (nominal, sensitivity, stress test results, VaR and SVaR levels). To properly support day to day banking activities a daily report, presenting all the market risk indicators, is delivered to the personnel acting in the Financial Markets Perimeter, to the management of Risk Department and to the SG Group. The process of monitoring the limit compliance blends together the daily metrics report with the monthly analysis of the trading book activitity, and the quarterly summaries submitted to the General Management.

(Amounts in thousands RON)

42. Risk management (continued)

42.2 Market risk (continued)

The assesment process of trading book related market risks is designed accordingly with the SG Group's methodology, combining three main risk approaches:

- Trading VAR, accompanied by SVaR;
- Stress test scenarios, based on shocks derived from historical and hypothetical scenarios;
- Complementary indicators (sensitivities, nominal, etc) which decompose the global indicators into specific ones, enabling the identification of risk areas, concentration on products, maturities that might lead to important risks unrevealed by the global risk metrics.

Value at Risk (VAR)

The purpose of VaR is to determine a maximum loss the bank might incur from the trading activity, over a given period of time, with a certain level of confidence. In accordance with the provisions of the EU Regulation no. 575/2013 - Art. 365 (1), BRD daily computes the VaR level for 1-day holding period, based on historical approach over a dynamic window, with a confidence level of 99%.

The relevance of the VaR model is assessed through **back testing**, by comparing the daily trading result with the loss estimated by the model, and is performed with daily frequency, in order to forewarn of the need to recalibrate the computational module or to reconsider the observation period of the market parameters. The model's accuracy is tested by comparing the number of days with negative P&L exceeding the VaR figure with the number of expected overshoots (induced by the model's assumptions). Should a breach occur, an investigation is conducted to identify its root and the event is escaladed to the management body of the Financial Markets' Perimeter.

No overshooting of the daily VaR by the P&L level occurred during 2017 and 2016.

The VaR model developed in BRD is used for management purposes only and is not transposed into capital requirements.

99% VAR (1 DAY) - KEY FIGURES (IN MEUR)

	Begin of year	End of year	Minimum	Average	Maximum
2016	0.13	0.13	0.07	0.21	0.46
2017	0.14	0.18	0.06	0.19	0.42

Stressed VAR (SVAR)

SVaR estimates a maximum loss from trading activity, for 1-day horizon and with 99% confidence level, as a consequence of adverse market movements associated with a financial crisis. SVaR is computed using the same approach as VaR, the only difference being that, in the case of SVaR, the observation period for the risk factors is fixed to a window of 12 consecutive months marked by extreme market events, according to the provisions of EU Regulation no. 575/2013 - Art. 365 (2).

The appropriateness of the one-year chosen window is assessed by comparing the SVaR level with the VaR level. If the VaR/SVaR ratio exceeds the 90% threshold at least three times during a quarter, the plausibility of the window must be reassessed. The range of daily VaR/SVaR values is analyzed on a weekly basis for signals on the need to review the SVaR period.

(Amounts in thousands RON)

42. Risk management (continued)

42.2 Market risk (continued)

99% SVAR (1 DAY) - KEY FIGURES (IN MEUR)

	Begin of year	End of year	Minimum	Average	Maximum
2016	0.79	0.82	0.37	1.10	2.11
2017	0.80	1.26	0.56	1.33	2.46

Stress test assessment

Methodology

The stress test assessment is one of the main pillars of the market risk management framework, being complementary to VaR and compensating the limitation of the historical VaR methodology. While the VaR model considers historical movements of the risk factors occurred in the past, the stress testing environment incubates theoretical hypothesis or market event-specific scenario describing large, abrupt changes of the underlying risk factors on the value of the positions and portfolios. A range of hypothetical models picturing extreme shocks are daily mixed with various historical scenarios, applied for the entire trading book portfolio of the Bank, the most adverse result being retained and compared with an approved limit, derived from the market risk appetite.
The various stress test scenarios are subject to review and improvement, the accuracy of the assumptions used under the active patterns being regularly monitored. The hypothesis validation aims to certify that the shocks applied are still harsh enough and they model an unlikely event, otherwise timely detecting the necessity to recalibrate them.

The table below presents the result of applying the stress test methodology on the trading book portfolio.

STRESS TEST ASSESSMENT - KEY NEGATIVE FIGURES (IN MEUR)

	Begin of year	End of year	Minimum	Average	Maximum
2016	1.84	3.23	0.77	4.15	8.82
2017	2.92	4.15	1.42	3.92	7.59

Foreign exchange risk

The foreign exchange risk is the risk of loss resulting from changes in exchange rates, monitored for all books. The Group and Bank manages the foreign currency risk by using limits for the open foreign currency positions both by currency and at the level of global foreign currency position.

The table below indicates the currencies to which the Group and Bank had an exposure as at December 31st on its assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the currency rate against RON, with all other variables held constant, on the income statement and equity. A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase. An equivalent decrease in each of the below currencies against RON would have resulted in an equivalent but opposite impact.

(Amounts in thousands RON)

42. Risk management (continued)

42.2 Market risk (continued)

The impact on equity does not contain the impact in income statement.

2017	Group			Bank		
Currency	Change in currency rate %	Effect on profit before tax	Effect on equity	Change in currency rate %	Effect on profit before tax	Effect on equity
EUR	+5	146,165	3,942	+5	147,946	3,942
Other	+5	81,720	-	+5	81,656	-

2016	Group			Bank		
Currency	Change in currency rate %	Effect on profit before tax	Effect on equity	Change in currency rate %	Effect on profit before tax	Effect on equity
EUR	+5	(66,604)	1,698	+5	(68,092)	1,698
Other	+5	(7,101)	-	+5	(7,328)	-

(Amounts in thousands RON)

42. Risk management (continued)

42.2 Market risk (continued)

The Group and the Bank statement of financial position structure by currency is presented below:

	Group				**Bank**			
	December 31, 2017				**December 31, 2017**			
ASSETS	**Total**	**RON**	**EUR**	**Other**	**Total**	**RON**	**EUR**	**Other**
Cash in hand	1,924,214	1,493,170	276,236	154,808	1,924,188	1,493,144	276,236	154,808
Due from Central Bank	5,757,953	4,338,198	1,419,755	-	5,757,953	4,338,198	1,419,755	-
Due from banks	2,549,512	337,403	1,178,332	1,033,777	2,530,468	318,359	1,178,332	1,033,777
Derivatives and other financial instrumen	637,686	273,730	363,956	-	637,689	273,733	363,956	-
Loans and advances to customers	29,608,422	18,693,027	10,838,681	76,714	29,011,925	18,196,247	10,738,964	76,714
Finance lease receivables	727,768	209,484	517,018	1,266	-	-	-	-
Financial assets available for sale	12,135,373	9,589,492	2,305,325	240,556	12,113,692	9,567,812	2,305,324	240,556
Investments in associates and subsidiare	151,860	123,318	-	28,542	158,594	130,052	-	28,542
Goodwill	50,130	50,130	-	-	50,130	50,130	-	-
Deferred tax asset	112,536	112,536	-	-	109,484	109,484	-	-
Non current assets and other assets	1,271,937	1,666,958	(1,430,370)	1,035,349	1,196,800	1,591,820	(1,430,369)	1,035,349
Total assets	**54,927,391**	**36,887,446**	**15,468,933**	**2,571,012**	**53,490,923**	**36,068,979**	**14,852,198**	**2,569,746**
LIABILITIES								
Due to banks	885,970	706,600	153,890	25,480	885,970	706,600	153,890	25,480
Due to customers	44,219,686	34,889,298	7,595,244	1,735,144	44,387,308	34,948,794	7,703,357	1,735,157
Borrowed funds	1,252,455	468,337	784,118	-	48,530	24,865	23,665	-
Subordinated debt	-	-	-	-	-	-	-	-
Derivatives and other financial instrumen	138,044	126,485	11,559	-	138,044	126,485	11,559	-
Current tax liability	103,581	103,581	-	-	102,388	102,388	-	-
Deferred tax liability	955	955	-	-	-	-	-	-
Other liabilities	957,949	710,698	235,333	11,918	900,296	653,045	235,333	11,918
Shareholders' equity	7,368,751	7,368,751	-	-	7,028,387	7,028,387	-	-
Total liabilities and shareholders' equity	**54,927,391**	**44,374,705**	**8,780,144**	**1,772,542**	**53,490,923**	**43,590,564**	**8,127,804**	**1,772,555**
Position		**(7,487,259)**	**6,688,789**	**798,469**		**(7,521,585)**	**6,724,394**	**797,190**
Position off BS		383,662	(1,460,155)	1,076,494		383,662	(1,460,155)	1,076,494
Position total		**(7,103,597)**	**5,228,634**	**1,874,964**		**(7,137,923)**	**5,264,239**	**1,873,684**

(Amounts in thousands RON)

42. Risk management (continued)

42.2 Market risk (continued)

	Group December 31,2016				Bank December 31,2016			
ASSETS	**Total**	**RON**	**EUR**	**Other**	**Total**	**RON**	**EUR**	**Other**
Cash in hand	1,800,529	1,198,458	405,061	197,010	1,800,506	1,198,434	405,061	197,011
Due from Central Bank	5,339,460	3,682,968	1,656,492	-	5,339,460	3,682,968	1,656,492	-
Due from banks	1,998,271	761,614	610,292	626,365	1,971,333	734,676	610,292	626,365
Derivatives and other financial instruments held for trading	1,203,282	909,583	293,699	0	1,203,299	909,601	293,698	0
Loans and advances to customers	27,838,705	16,321,393	11,333,767	183,545	27,384,110	15,928,499	11,272,066	183,545
Finance lease receivables	663,517	164,969	494,015	4,533	-	-	-	-
Financial assets available for sale	11,609,855	10,075,822	1,360,149	173,884	11,585,000	10,050,966	1,360,150	173,884
Investments in associates and subsidiares	134,071	106,892	-	27,179	158,997	131,818	-	27,179
Goodwill	50,130	50,130	-	-	50,130	50,130	-	-
Deferred tax asset	65,060	65,060	-	-	61,321	61,321	-	-
Non current assets and other assets	1,178,612	1,159,721	11,623	7,268	1,103,427	1,084,536	11,623	7,268
Total assets	**51,881,492**	**34,496,610**	**16,165,098**	**1,219,784**	**50,657,583**	**33,832,949**	**15,609,382**	**1,215,252**
LIABILITIES								
Due to banks	531,601	287,334	185,294	58,973	531,601	287,334	185,294	58,973
Due to customers	42,192,749	26,317,161	13,435,543	2,440,045	42,290,738	26,370,213	13,480,480	2,440,045
Borrowed funds	1,101,558	467,397	634,161	-	138,451	75,175	63,276	-
Subordinated debt	-	-	-	-	-	-	-	-
Derivatives and other financial instruments held for trading	211,032	189,551	21,481	-	211,066	189,585	21,481	-
Current tax liability	142,082	142,082	-	-	140,124	140,124	-	-
Deferred tax liability	710	710	-	-	-	-	-	-
Other liabilities	1,027,927	606,390	399,203	22,334	978,420	556,884	399,202	22,334
Shareholders' equity	6,673,833	6,673,833	-	-	6,367,183	6,367,183	-	-
Total liabilities and shareholders' equity	**51,881,492**	**34,684,458**	**14,675,682**	**2,521,352**	**50,657,583**	**33,986,498**	**14,149,733**	**2,521,352**
Position		**(187,848)**	**1,489,416**	**(1,301,568)**		**(153,549)**	**1,459,649**	**(1,306,100)**
Position off BS		127,915	(1,461,345)	1,333,430		127,915	(1,461,345)	1,333,430
Position total		**(59,933)**	**28,071**	**31,862**		**(25,634)**	**(1,696)**	**27,330**

(Amounts in thousands RON)

42. Risk management (continued)

42.2 Market risk (continued)

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The main tool used in managing the interest rate risk in banking book is the gap analysis, along with a measure of the balance sheet sensitivity to yield curve shifts. In accordance with the Group's policy, positions are monitored on a regular basis and appropriate strategies are used to ensure positions are maintained within the established limits. The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's and Bank's income statement and equity.

Group December 31, 2017			Bank December 31, 2017		
Change in interest rate (b.p)	Effect on profit before tax	Effect on equity	Change in interest rate (b.p)	Effect on profit before tax	Effect on equity
100	(86,104)	12,040	100	(83,392)	9,970
(100)	84,966	(12,040)	(100)	83,392	(9,970)

December 31, 2016			December 31, 2016		
Change in interest rate (b.p)	Effect on profit before tax	Effect on equity	Change in interest rate (b.p)	Effect on profit before tax	Effect on equity
100	(88,340)	14,476	100	(82,761)	15,892
(100)	87,409	(14,476)	(100)	82,761	(15,892)

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the profit or loss for the year, based on the financial assets and financial liabilities held at 31st December. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets at 31st December considering the effects of the assumed changes in interest rates. The total sensitivity of the income statement and equity is based on the assumption that there are parallel shifts in the yield curve.

The tables below analyse the Group's and the Bank's banking book interest rate risk exposure. The Group's assets and liabilities are included at carrying amount and gaps between outstanding assets and liabilities are determined on the basis of the contractual terms of transactions, models based on clients' historic behaviour patterns, as well as conventional assumptions relating to certain balance sheet items.

(Amounts in thousands RON)

42. Risk management (continued)

42.2 Market risk (continued)

Group

December 31, 2017	**0-1 months**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
ASSETS						
Cash in hand	64,165	128,279	577,257	1,154,513	-	1,924,214
Due from Central Bank	2,647,314	154,739	1,778,678	808,517	368,705	5,757,953
Due from banks	1,924,425	466,475	18,294	54,882	18,553	2,482,629
Derivatives and other financial instruments held for trading	154,284	-	-	-	-	154,284
Loans and advances to customers	9,488,191	11,232,922	3,004,668	4,471,332	272,404	28,469,517
Financial lease receivables	28,510	225,382	239,517	233,281	1,078	727,768
Financial assets available for sale	684,406	162,084	1,246,991	5,007,287	5,034,605	12,135,373
Investments in associates and subsidiares	1,265	2,531	11,389	60,744	75,931	151,860
Goodwill	418	836	3,760	20,052	25,064	50,130
Deferred tax asset	938	1,875	8,441	45,015	56,267	112,536
Non current assets and other assets	7,932	335,932	71,390	380,748	475,935	1,271,937
Total assets	**15,001,848**	**12,711,055**	**6,960,385**	**12,236,371**	**6,328,542**	**53,238,201**
Liabilities						
Due to banks	145,067	69,896	-	23,299	-	238,262
Due to customers	14,593,450	7,223,379	10,730,595	7,978,628	3,693,634	44,219,686
Debt issued and borrowed funds	122,485	316,421	293,999	511,154	8,396	1,252,455
Subordinated debt	-	-	-	-	-	-
Derivative financial instruments	138,044	-	-	-	-	138,044
Current tax liability	-	-	103,581	-	-	103,581
Deffered tax liability	8	16	72	381	478	955
Other liabilities	-	957,949	-	-	-	957,949
Total liabilities	**14,999,054**	**8,567,661**	**11,128,247**	**8,513,462**	**3,702,508**	**46,910,932**
Total shareholders' equity	**-**	**-**	**736,875**	**2,947,500**	**3,684,376**	
Net position	**2,794**	**4,143,394**	**(4,904,737)**	**775,409**	**(1,058,342)**	

(Amounts in thousands RON)

42. Risk management (continued)

42.2 Market risk (continued)

Group

December 31, 2016	0-1 months	1-3 months	3-12 months	1-5 years	Over 5 years	Total
ASSETS						
Cash in hand	198,080	32,736	147,314	812,820	609,579	1,800,529
Due from Central Bank	2,288,605	94,639	1,142,523	1,412,982	400,711	5,339,460
Due from banks	1,792,009	-	30,847	73,176	12,553	1,908,585
Derivatives and other financial instruments held for trading	312,264	-	-	-	-	312,264
Loans and advances to customers	8,768,953	10,618,580	3,393,385	3,786,666	334,895	26,902,479
Financial lease receivables	28,370	201,930	224,167	209,050	-	663,517
Financial assets available for sale	439,271	43,436	2,753,350	4,388,423	3,985,375	11,609,855
Investments in associates and subsidiares	1,116	2,235	10,055	53,629	67,036	134,070
Goodwill	417	836	3,760	20,052	25,065	50,130
Deferred tax asset	(208)	3,378	3,591	65,880	(7,581)	65,060
Non current assets and other assets	7,816	256,466	70,333	375,110	468,888	1,178,613
Total assets	**13,836,693**	**11,254,235**	**7,779,325**	**11,197,788**	**5,896,520**	**49,964,562**
Liabilities						
Due to banks	83,302	90,822	-	22,706	-	196,830
Due to customers	14,533,079	7,204,450	9,723,953	6,907,278	3,534,837	41,903,597
Debt issued and borrowed funds	171,353	301,337	239,237	358,899	30,732	1,101,558
Subordinated debt	-	-	-	-	-	-
Derivative financial instruments	211,032	-	-	-	-	211,032
Current tax liability	-	-	142,082	-	-	142,082
Deffered tax liability	6	12	53	284	355	710
Other liabilities	-	1,027,927	-	-	-	1,027,927
Total liabilities	**14,998,772**	**8,624,548**	**10,105,325**	**7,289,167**	**3,565,924**	**44,583,736**
Total shareholders' equity	**-**	**-**	**667,383**	**2,669,533**	**3,336,917**	
Net position	**(1,162,079)**	**2,629,687**	**(2,993,383)**	**1,239,088**	**(1,006,320)**	

(Amounts in thousands RON)

42. Risk management (continued)

42.2 Market risk (continued)

Bank **December 31, 2017**	**0-1 months**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
ASSETS						
Cash in hand	64,140	128,279	577,257	1,154,512	-	1,924,188
Due from Central Bank	2,647,315	154,739	1,778,678	808,516	368,705	5,757,953
Due from banks	1,923,934	466,475	18,294	54,882	-	2,463,585
Derivatives and other financial instruments held for trading	154,287	-	-	-	-	154,287
Loans and advances to customers	9,490,338	11,271,437	2,984,495	3,855,273	271,477	27,873,020
Financial assets available for sale	684,406	162,084	1,246,991	4,985,606	5,034,605	12,113,692
Investments in associates and subsidiares	1,321	2,643	11,895	63,438	79,297	158,594
Goodwill	417	836	3,760	20,052	25,065	50,130
Deferred tax asset	913	1,825	8,211	43,793	54,742	109,484
Non current assets and other assets	7,843	271,038	70,608	376,580	470,731	1,196,800
Total assets	**14,974,914**	**12,459,356**	**6,700,189**	**11,362,652**	**6,304,622**	**51,801,733**
Liabilities						
Due to banks	145,067	69,896	-	23,299	-	238,262
Due to customers	14,672,892	7,271,028	10,760,138	7,986,617	3,696,633	44,387,308
Debt issued and borrowed funds	3,955	802	6,298	29,079	8,396	48,530
Subordinated debt	-	-	-	-	-	-
Derivative financial instruments	138,044	-	-	-	-	138,044
Deffered tax liability	-	-	-	-	-	-
Other liabilities	-	900,296	-	-	-	900,296
Total liabilities	**14,959,958**	**8,242,022**	**10,766,436**	**8,038,995**	**3,705,029**	**45,712,440**
Total shareholders' equity	**-**	**-**	**702,839**	**2,811,355**	**3,514,194**	**7,028,387**
Net position	**14,956**	**4,217,334**	**(4,769,086)**	**512,302**	**(914,601)**	

(Amounts in thousands RON)

42. Risk management (continued)

42.2 Market risk (continued)

Bank December 31, 2016	0-1 months	1-3 months	3-12 months	1-5 years	Over 5 years	Total
ASSETS						
Cash in hand	198,057	32,736	147,314	812,820	609,579	1,800,506
Due from Central Bank	2,288,605	94,639	1,142,523	1,412,982	400,711	5,339,460
Due from banks	1,790,178	-	18,294	73,176	-	1,881,648
Derivatives and other financial instruments held for trading	312,280	-	-	-	-	312,280
Loans and advances to customers	8,747,043	10,627,862	3,419,780	3,318,904	334,295	26,447,884
Financial assets available for sale	439,271	43,436	2,753,350	4,363,568	3,985,375	11,585,000
Investments in associates and subsidiares	1,324	2,650	11,925	63,599	79,499	158,997
Goodwill	417	836	3,760	20,052	25,065	50,130
Deferred tax asset	(241)	3,315	3,281	64,455	(9,489)	61,321
Non current assets and other assets	7,710	193,442	69,406	370,164	462,705	1,103,427
Total assets	**13,784,644**	**10,998,916**	**7,569,633**	**10,499,720**	**5,887,740**	**48,740,653**
Liabilities						
Due to banks	83,303	90,822	-	22,706	-	196,831
Due to customers	14,575,769	7,205,586	9,729,063	6,939,992	3,551,175	42,001,585
Debt issued and borrowed funds	1,036	37,782	18,469	50,432	30,732	138,451
Subordinated debt	-	-	-	-	-	-
Derivative financial instruments	211,066	-	-	-	-	211,066
Deffered tax liability	-	-	-	-	-	-
Other liabilities	-	978,420	-	-	-	978,420
Total liabilities	**14,871,174**	**8,312,610**	**9,747,532**	**7,013,130**	**3,581,907**	**43,526,353**
Total shareholders' equity	**-**	**-**	**636,718**	**2,546,873**	**3,183,592**	**6,367,183**
Net position	**(1,086,530)**	**2,686,306**	**(2,814,617)**	**939,717**	**(877,759)**	

42. Risk management (continued)

42.3 Liquidity risk

The liquidity risk is associated either with the difficulty of an enterprise to raise necessary funds in order to meet commitments or with its inability to monetize a financial asset quickly and for an amount close to its fair value.

The Group manages the exposure to the liquidity risk using a specific framework designed to manage it both under normal day-to-day conditions and in the event of a potential liquidity crisis. The liquidity risk management approach starts at the intraday level managing the daily payments flows, forecasting and managing cash flows, and factoring in the access to central bank monetary policy operations and standing facilities. It then covers a longer term perspective, comprising the maturity profile of all assets and liabilities and the funding strategy.

The liquidity risk position, under normal conditions, is measured at consolidated level using the static liquidity gaps indicator which is defined as the difference between the expected future inflows and outflows related to the current transactions (no new business included), determined for each time bucket and currency based on the contractual maturity of the transactions, considering also embedded options (e.g. prepayment for loans, term deposits) or, for non-maturing products (the main ones being: current accounts, fixed assets, other assets, equity, other liabilities), based on a maturity modelled using historical client behaviour or a conventional maturity. For each budgeting and planning exercise, the future funding needs are assessed starting from the actual liquidity position and budgeted evolution of assets and liabilities. When a deficit is expected, funding solutions are assessed and appropriate actions are planned.

The Group performs liquidity risk stress tests on a quarterly basis in order to identify and quantify its exposures to possible liquidity stresses, analyzing potential impacts on the cash flows and liquidity position. The Group is considering 3 liquidity crisis scenarios: specific to the Group (idiosyncratic), systemic and a combination of both. The Group maintains a liquidity buffer of unencumbered, high quality liquid assets as an insurance against a range of liquidity stress scenarios. A contingency funding plan is designed to protect the stakeholders' interests and to ensure positive outcome in the event of a liquidity crisis.

The maturity structure of the Group's and the Bank's assets and liabilities as of December 31, 2017 and 2016 is as follows:

(Amounts in thousands RON)

42. Risk management (continued)

42.3 Liquidity risk (continued) Group

Group

December 31, 2017	Total	0-1 months	1-3 months	3-12 months	1-5 years	Over 5 years	Without defined maturity
ASSETS							
Cash in hand	1,924,214	64,165	128,279	577,257	1,154,513	-	-
Due from Central Bank	5,757,953	2,647,314	154,739	1,778,678	808,517	368,705	-
Due from banks	2,549,512	1,991,308	466,475	18,294	54,882	18,553	-
Derivatives and other financial instruments held for trading	637,686	637,686	-	-	-	-	-
Loans and advances to customers	29,608,422	1,760,636	794,632	3,782,689	12,561,988	10,708,477	-
Financial lease receivables	727,768	28,038	54,136	202,970	441,337	1,287	-
Financial assets available for sale	12,135,373	12,053,643	-	-	81,730	-	-
Investments in associates and subsidiares	151,860	1,266	2,531	11,389	60,744	75,930	-
Goodwill	50,130	417	836	3,760	20,052	25,065	-
Deferred tax asset	112,536	938	1,876	8,440	45,015	56,267	-
Non current assets and other assets	1,271,937	7,932	335,932	71,390	380,748	475,935	-
Total assets	**54,927,391**	**19,193,343**	**1,939,436**	**6,454,867**	**15,609,526**	**11,730,219**	-
LIABILITIES							
Due to banks	885,970	792,775	-	23,299	69,896	-	-
Due to customers	44,219,686	7,772,283	3,247,608	8,213,757	17,136,097	7,849,941	-
Debt issued and borrowed funds	1,252,455	69,004	91,596	387,527	695,932	8,396	-
Subordinated debt	-	-	-	-	-	-	-
Derivative financial instruments	138,044	138,044	-	-	-	-	-
Current tax liability	103,581	-	-	103,581	-	-	-
Deffered tax liability	955	8	15	72	382	478	-
Other liabilities	957,949	-	957,949	-	-	-	-
Shareholders' equity	**47,558,640**	**8,772,114**	**4,297,168**	**8,728,236**	**17,902,307**	**7,858,815**	-
Total shareholders equity	**7,368,751**	-	-	**736,875**	**2,947,500**	**3,684,376**	-
Gap		**10,421,229**	**(2,357,732)**	**(3,010,244)**	**(5,240,281)**	**187,028**	-
Cumulative gap		**10,421,229**	**8,063,497**	**5,053,253**	**(187,028)**	**(0)**	-

(Amounts in thousands RON)

42. Risk management (continued)

42.3 Liquidity risk (continued) Group

Group

December 31, 2016	Total	0-1 months	1-3 months	3-12 months	1-5 years	Over 5 years	Without defined maturity
ASSETS							
Cash in hand	1,800,529	198,080	32,736	147,314	812,820	609,579	-
Due from Central Bank	5,339,460	2,288,605	94,639	1,142,523	1,412,982	400,711	-
Due from banks	1,998,271	1,881,695	-	30,847	73,176	12,553	-
Derivatives and other financial instruments held for trading	1,203,282	1,203,282	-	-	-	-	-
Loans and advances to customers	27,838,705	1,527,382	934,902	3,503,498	12,199,849	9,673,074	-
Financial lease receivables	663,517	23,146	26,433	196,894	414,803	2,241	-
Financial assets available for sale	11,609,855	11,511,125	-	-	98,730	-	-
Investments in associates and subsidiares	134,071	1,116	2,235	10,055	53,629	67,036	-
Goodwill	50,130	417	836	3,760	20,052	25,065	-
Deferred tax asset	65,060	(208)	3,378	3,591	65,880	(7,581)	-
Non current assets and other assets	1,178,612	7,816	256,465	70,333	375,110	468,888	-
Total assets	**51,881,492**	**18,642,456**	**1,351,624**	**5,108,815**	**15,527,031**	**11,251,566**	**-**
LIABILITIES							
Due to banks	531,601	418,073	-	22,706	90,822	-	-
Due to customers	42,192,749	9,550,159	1,864,120	6,873,970	15,899,524	8,004,976	-
Debt issued and borrowed funds	1,101,558	45,019	103,252	340,431	581,510	31,346	-
Subordinated debt	-	-	-	-	-	-	-
Derivative financial instruments	211,032	211,032	-	-	-	-	-
Current tax liability	142,082	-	-	142,082	-	-	-
Deffered tax liability	710	6	12	53	284	355	-
Other liabilities	1,027,927	-	1,027,927	-	-	-	-
Shareholders' equity	**45,207,659**	**10,224,289**	**2,995,311**	**7,379,242**	**16,572,140**	**8,036,677**	**-**
Total shareholders equity	**6,673,833**	**-**	**-**	**667,383**	**2,669,533**	**3,336,917**	**-**
Gap		**8,418,167**	**(1,643,687)**	**(2,937,810)**	**(3,714,642)**	**(122,028)**	**-**
Cumulative gap		**8,418,167**	**6,774,480**	**3,836,670**	**122,028**	**0**	**-**

(Amounts in thousands RON)

42. Risk management (continued)

42.3 Liquidity risk (continued) Bank

Bank

December 31, 2017	Total	0-1 months	1-3 months	3-12 months	1-5 years	Over 5 years	Without defined maturity
ASSETS							
Cash in hand	1,924,188	64,140	128,279	577,256	1,154,513	-	-
Due from Central Bank	5,757,953	2,647,315	154,739	1,778,677	808,517	368,705	-
Due from banks	2,530,468	1,990,817	466,475	18,294	54,882	-	-
Derivatives and other financial instruments held for trading	637,689	637,689	-	-	-	-	-
Loans and advances to customers	29,011,925	1,765,325	796,945	3,812,187	11,929,925	10,707,543	-
Financial lease receivables	-						
Financial assets available for sale	12,113,692	12,031,962	-	-	81,730	-	-
Investments in associates and subsidiares	158,594	1,321	2,643	11,895	63,438	79,297	-
Goodwill	50,130	417	836	3,760	20,052	25,065	-
Deferred tax asset	109,484	913	1,824	8,211	43,794	54,742	-
Non current assets and other assets	1,196,800	7,845	271,039	70,609	376,581	470,726	-
Total assets	**53,490,923**	**19,147,744**	**1,822,780**	**6,280,889**	**14,533,432**	**11,706,078**	**-**
Liabilities							
Due to banks	885,970	792,775	-	23,299	69,896	-	-
Due to customers	44,387,308	7,851,723	3,295,258	8,243,300	17,144,086	7,852,941	-
Debt issued and borrowed funds	48,530	3,565	23,355	2,799	10,415	8,396	-
Subordinated debt	-	-	-	-	-	-	-
Derivative financial instruments	138,044	138,044	-	-	-	-	-
Current tax liability	102,388	-	-	102,388	-	-	-
Deffered tax liability	-	-	-	-	-	-	-
Other liabilities	900,296	-	900,296	-	-	-	-
Shareholders' equity	**46,462,536**	**8,786,107**	**4,218,909**	**8,371,786**	**17,224,397**	**7,861,337**	**-**
Total shareholders equity	**7,028,387**	**-**	**-**	**702,838**	**2,811,355**	**3,514,194**	**-**
Gap		**10,361,637**	**(2,396,129)**	**(2,793,735)**	**(5,502,320)**	**330,547**	**-**
Cumulative gap		**10,361,637**	**7,965,508**	**5,171,773**	**(330,547)**	**(0)**	**-**

(Amounts in thousands RON)

42. Risk management (continued)

42.3 Liquidity risk (continued) Bank

Bank

December 31, 2016	Total	0-1 months	1-3 months	3-12 months	1-5 years	Over 5 years	Without defined maturity
ASSETS							
Cash in hand	1,800,506	198,057	32,736	147,314	812,820	609,579	-
Due from Central Bank	5,339,460	2,288,605	94,639	1,142,523	1,412,982	400,711	-
Due from banks	1,971,333	1,879,863	-	18,294	73,176	-	-
Derivatives and other financial instruments held for trading	1,203,299	1,203,299	-	-	-	-	-
Loans and advances to customers	27,384,110	1,500,218	974,188	3,525,985	11,711,244	9,672,475	-
Financial lease receivables	-						
Financial assets available for sale	11,585,000	11,511,124	-	-	73,876	-	-
Investments in associates and subsidiares	158,997	1,324	2,650	11,925	63,599	79,499	-
Goodwill	50,130	417	836	3,760	20,052	25,065	-
Deferred tax asset	61,321	(241)	3,315	3,281	64,455	(9,489)	-
Non current assets and other assets	1,103,427	7,710	193,442	69,406	370,164	462,705	-
Total assets	**50,657,583**	**18,590,376**	**1,301,806**	**4,922,488**	**14,602,368**	**11,240,545**	**-**
Liabilities							
Due to banks	531,601	418,073	-	22,706	90,822	-	-
Due to customers	42,290,738	9,563,578	1,870,256	6,903,348	15,932,241	8,021,315	-
Debt issued and borrowed funds	138,451	1,036	19,380	36,871	50,432	30,732	-
Subordinated debt	-	-	-	-	-	-	-
Derivative financial instruments	211,066	211,066	-	-	-	-	-
Current tax liability	140,124	-	-	140,124	-	-	-
Deffered tax liability	-	-	-	-	-	-	-
Other liabilities	978,420	-	978,420	-	-	-	-
Shareholders' equity	**44,290,400**	**10,193,753**	**2,868,056**	**7,103,049**	**16,073,495**	**8,052,047**	**-**
Total shareholders equity	**6,367,183**	**-**	**-**	**636,718**	**2,546,873**	**3,183,592**	**-**
Gap		**8,396,623**	**(1,566,250)**	**(2,817,279)**	**(4,018,000)**	**4,906**	**-**
Cumulative gap		**8,396,623**	**6,830,373**	**4,013,094**	**(4,906)**	**(0)**	**-**

(Amounts in thousands RON)

42. Risk management (continued)

42.3 Liquidity risk (continued)

Future undiscounted cash flows

The tables below summarize the maturity profile of the financial liabilities based on contractual undiscounted repayment obligations.

Group

December 31, 2017	Total	0-1 months	1-3 months	3-12 months	1-5 years	Over 5 years	Without defined maturity
LIABILITIES							
Due to banks	886,062	792,867	-	23,299	69,896	-	-
Due to customers	44,570,224	7,823,503	3,295,288	8,370,205	17,216,550	7,864,678	-
Debt issued and borrowed funds	1,268,688	70,231	93,841	394,441	701,779	8,396	-
Subordinated debt	-	-	-	-	-	-	-
Derivative financial instruments	66,634	3,444	1,858	15,617	45,538	177	-
Current tax liability	103,581	-	-	103,581	-	-	-
Deffered tax liability	955	-	-	-	-	-	955
Other liabilities except for fair values of derivatives	957,949	-	957,949	-	-	-	-
Letters of guarantee granted	5,257,706	5,257,706	-	-	-	-	-
Total liabilities	**53,111,799**	**13,947,751**	**4,348,936**	**8,907,143**	**18,033,763**	**7,873,251**	**955**

Group

December 31, 2016	Total	0-1 months	1-3 months	3-12 months	1-5 years	Over 5 years	Without defined maturity
LIABILITIES							
Due to banks	540,141	418,130	214	24,511	97,286	-	-
Due to customers	42,434,368	9,617,220	1,894,784	6,966,661	15,947,454	8,008,249	-
Debt issued and borrowed funds	1,117,343	46,528	105,592	346,775	587,099	31,349	-
Subordinated debt	-	-	-	-	-	-	-
Derivative financial instruments	(2,555,769)	(1,645)	(5,579)	(750,921)	(1,778,977)	(18,647)	-
Current tax liability	142,082	-	-	142,082	-	-	-
Deffered tax liability	710	-	-	-	-	-	710
Other liabilities except for fair values of derivatives	1,027,927	-	1,027,927	-	-	-	-
Letters of guarantee granted	5,785,743	5,785,743	-	-	-	-	-
Total liabilities	**48,492,545**	**15,865,976**	**3,022,938**	**6,729,108**	**14,852,862**	**8,020,951**	**710**

(Amounts in thousands RON)

42. Risk management (continued)

42.3 Liquidity risk (continued)

Future undiscounted cash flows (continued)

Bank

December 31, 2017	Total	0-1 months	1-3 months	3-12 months	1-5 years	Over 5 years	Without defined maturity
LIABILITIES							
Due to banks	886,062	792,867	-	23,299	69,896	-	-
Due to customers	36,899,848	7,902,942	3,353,911	8,399,748	17,227,157	16,090	-
Debt issued and borrowed funds	40,135	3,566	23,355	2,799	10,415	-	-
Subordinated debt	-	-	-	-	-	-	-
Derivative financial instruments	66,635	3,445	1,858	15,617	45,538	177	-
Current tax liability	102,388	-	102,388	-	-	-	-
Deffered tax liability	-	-	-	-	-	-	-
Other liabilities except for fair values of derivatives	900,296	-	900,296	-	-	-	-
Letters of guarantee granted	5,291,373	5,291,373	-	-	-	-	-
Total liabilities	**44,186,737**	**13,994,193**	**4,381,808**	**8,441,463**	**17,353,006**	**16,267**	**-**

Bank

December 31, 2016	Total	0-1 months	1-3 months	3-12 months	1-5 years	Over 5 years	Without defined maturity
LIABILITIES							
Due to banks	540,141	418,130	214	24,511	97,286	-	-
Due to customers	34,538,022	9,630,161	1,904,387	7,005,087	15,992,555	5,831	-
Debt issued and borrowed funds	108,582	1,328	19,758	37,064	50,432	-	-
Subordinated debt	-	-	-	-	-	-	-
Derivative financial instruments	(2,555,750)	(1,645)	(5,561)	(750,921)	(1,778,977)	(18,647)	-
Current tax liability	140,124	-	140,124	-	-	-	-
Deffered tax liability	-	-	-	-	-	-	-
Other liabilities except for fair values of derivatives	978,421	-	978,421	-	-	-	-
Letters of guarantee granted	5,822,732	5,822,732	-	-	-	-	-
Total liabilities	**39,572,271**	**15,870,706**	**3,037,342**	**6,315,741**	**14,361,296**	**(12,816)**	**-**

42. Risk management (continued)

42.4 Operational risk

Operational risk (OR) represents the risk of loss resulting from the use of inadequate internal processes, people or systems or that have not performed their function properly or from external events. Operational Risk also includes events with low frequency and possible negative impact. Operational Risk includes legal risk but excludes strategic and reputational risk.

The Group's operational risk management system was developed and strengthened over the years and allows:

- identification, analysis and evaluation, control and monitoring of operational risks;
- implementation of measures meant to improve and strengthen the control system, in order to prevent/reduce operational risk losses;
- regulatory compliance regarding calculation of capital requirements for operational risk.

The day to day management of operational risk is the responsibility of employees from each business unit. The personnel have to be always aware of their responsibilities in connection with identification and reporting of operational risks and other duties which may arise in relation with the management of operational risks.
Operational risk management tools put in place at BRD are:

- Historical operational risk losses database;
- Key risk indicators (KRI);
- Risk and control self-assessment process (RCSA);
- Scenario analysis;
- Managerial Supervision of processes (MS);
- Fraud identification and prevention system;
- Committee for New Products and Significant Changes of Activity, which ensures the assessment of operational risks associated with new products, outsourcing of activities and significant transformations of activity;
- Crisis management and business continuity plan.

In 2017, the Group operational risk strategy focused on the following axes:

- Review and upgrade of Managerial Supervision controls on credits, following (i) some changes implemented in flows (retail and non-retail) (ii) the identification of some weaknesses in the current control set-up;
- Optimization of controls sample: harmonization of sampling rules and establishment of control sample on more risk focused criteria, as well as adaptation of sampling process to the recent changes in flows and archiving;
- Review of some KRIs (periodical/routine, alert threshold updates, etc.) in order to ensure their accuracy and relevance;
- Implementation of new antifraud indicators based on client/employee's behavior, re-assessment (with possible update) of fraud typologies, intensification of anti-fraud training sessions;
- Enhancement of operational risk culture (training at management and operational levels);
- Running of BIA, continuously updating BCP crisis scenarios as well as closely following up the annual tests and training / awareness of staff.

(Amounts in thousands RON)

42. Risk management (continued)

42.4 Operational risk (continued)

As member of the Societe Generale Group, BRD is using since 2008 the Advanced Measurement Approach (AMA) for the calculation of operational risk capital requirement.

43. Capital management

Starting 1st January 2014 BRD Group calculates the capital requirements in accordance with Basel 3 principles, implemented in the European Union law by the capital Directive (CRD IV - 36/2013) , Regulation (CRR – 575/2013), technical regulatory standards and technical implementation standards issued by the European Banking Authority.

Locally, the European requirements are adopted through National Bank of Romania (NBR) prudential regulations for credit institutions and investment firms: OUG 99/2006 on credit institutions and capital adequacy and NBR Regulation no. 5/2013 regarding prudential requirements.

Please find below a summary of the capital requirements indicators in million RON:

	Group		Bank	
	2017	**2016**	**2017**	**2016**
Eligible CET1	*6,117*	*5,869*	*5,824*	*5,587*
Eligible CET1 after adjustments	*6,142*	*6,011*	*5,845*	*5,729*
Total Tier 1 capital	5,673	5,576	5,339	5,212
TOTAL OWN FUNDS	**5,673**	**5,576**	**5,339**	**5,212**
Total capital requirement	**2,258**	**2,192**	**2,162**	**2,110**
Credit risk (including counterparty risk)	26,123	24,592	24,971	23,601
Market risk	164	238	164	236
Operational risk	1,866	2,406	1,822	2,370
CVA risk	66	166	66	166
Total risk exposure amount	**28,219**	**27,402**	**27,023**	**26,373**
Regulatory CAR	20.10%	20.35%	19.76%	19.76%
Tier 1 ratio	20.10%	20.35%	19.76%	19.76%

Group's and Bank's own funds comprises Tier 1 capital. As at December 31, 2017 and December 31, 2016 the Bank has no Tier 2 capital instruments.

Tier 1 capital includes eligible capital, eligible reserves, other comprehensive income less regulatory deductions. The Group and Bank include the profit of the year in the own funds presented above as at December 31, 2017 and December 31, 2016.

The Group and Bank was compliant with the adequacy ratios throughout the year.

44. Fair value

Determination of fair value and fair value hierarchy
To determine and disclose the fair value hierarchy of the financial instruments, the Group follows the three-level classification of the inputs to valuation techniques used to measure fair value:

- **Level 1: quoted (unadjusted) prices** in active markets for identical assets or liabilities;

  Level 1 instruments contain the government bonds, priced directly by external counterparties on various dealing platforms (Bloomberg, Reuters etc);

- **Level 2: other inputs** than those quoted princes included within Level 1, **that are observable** for that particular asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices);

  Level 2 instruments include in particular securities that can not directly be quoted on the market (e.g. corporate bonds) and firm derivates, with standard features and common maturities, whose value can be retrieved or derived from market data;

- **Level 3**: inputs that are not based on observable market data (**unobservable inputs**).

  Level 3 instruments include options traded over-the-counter and other derivatives with specifically-tailored return profiles and/or maturities extended over the normal spectrum;

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

(Amounts in thousands RON)

44. Fair value (continued)

	Group				Bank			
	December 31, 2017				December 31, 2017			
Assets measured at fair value	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets								
Derivative financial instruments								
Interest rate swaps	-	78,837	-	78,837	-	78,837	-	78,837
Currency swaps	-	8,452	-	8,452	-	8,455	-	8,455
Forward foreign exchange contracts	-	20,805	-	20,805	-	20,805	-	20,805
Options	-	-	46,190	46,190	-	-	46,190	46,190
	-	**108,094**	**46,190**	**154,284**	**-**	**108,097**	**46,190**	**154,287**
Financial assets available for sale								
Treasury notes	12,036,572	-	-	12,036,572	12,036,572	-	-	12,036,572
Equity investments (listed)	3,137	-	-	3,137	3,137	-	-	3,137
Equity investments (not listed)	-	-	32,322	32,322	-	-	32,322	32,322
Other securities quoted	63,342	-	-	63,342	41,661	-	-	41,661
Total	**12,103,051**	**-**	**32,322**	**12,135,373**	**12,081,370**	**-**	**32,322**	**12,113,692**
Trading treasury notes	483,402	-	-	483,402	483,402	-	-	483,402
Total	**12,586,453**	**108,094**	**78,512**	**12,773,059**	**12,564,772**	**108,097**	**78,512**	**12,751,381**
Assets for which fair value is disclosed								
Cash in hand	1,924,214	-	-	1,924,214	1,924,188	-	-	1,924,188
Due from Central Bank	5,757,953	-	-	5,757,953	5,757,953	-	-	5,757,953
Due from banks	2,549,512	-	-	2,549,512	2,530,468	-	-	2,530,468
Loans and advances to customers	-	-	29,756,635	29,756,635	-	-	29,261,379	29,261,379
Financial lease receivables	-	-	727,965	727,965	-	-	-	-
Total	**10,231,679**	**-**	**30,484,600**	**40,716,279**	**10,212,609**	**-**	**29,261,379**	**39,473,988**

(Amounts in thousands RON)

44. Fair value (continued)

	Group				Bank			
	December 31, 2017				December 31, 2017			
Liabilities measured at fair value	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial liabilities								
Derivative financial instruments								
Interest rate swaps	-	41,127	-	41,127	-	41,127	-	41,127
Currency swaps	-	26,543	-	26,543	-	26,543	-	26,543
Forward foreign exchange contracts	-	3,404	-	3,404	-	3,404	-	3,404
Options	-	-	46,267	46,267	-	-	46,267	46,267
Total	**-**	**71,074**	**46,267**	**117,341**	**-**	**71,074**	**46,267**	**117,341**
Trading treasury notes	20,703	-	-	20,703	20,703	-	-	20,703
Total	**20,703**	**71,074**	**-**	**138,044**	**20,703**	**71,074**	**46,267**	**138,044**
Liabilities for which fair value is disclosed								
Due to banks	885,970		-	885,970	885,970		-	885,970
Due to customers	-	44,220,105	-	44,220,105	-	44,387,729	-	44,387,729
Borrowed funds	1,252,455		-	1,252,455	48,530		-	48,530
Total	**2,138,425**	**44,220,105**	**-**	**46,358,530**	**934,500**	**44,387,729**	**-**	**45,322,229**

(Amounts in thousands RON)

44. Fair value (continued)

	Group				Bank			
	December 31, 2016				December 31, 2016			
Assets measured at fair value	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets								
Derivative financial instruments								
Interest rate swaps	-	197,954	-	197,954	-	197,954	-	197,954
Currency swaps	-	30,124	-	30,124	-	30,141	-	30,141
Forward foreign exchange contracts	-	18,664	-	18,664	-	18,664	-	18,664
Options	-	-	65,522	65,522	-	-	65,522	65,522
	-	**246,742**	**65,522**	**312,264**	**-**	**246,759**	**65,522**	**312,281**
Financial assets available for sale								
Treasury notes	11,517,101	-	-	11,517,101	11,517,101	-	-	11,517,101
Equity investments (listed)	3,296	-	-	3,296	3,296	-	-	3,296
Equity investments (not listed)	-	-	22,983	22,983	-	-	22,983	22,983
Other securities quoted	66,475	-	-	66,475	41,620	-	-	41,620
	11,586,872	**-**	**22,983**	**11,609,855**	**11,562,017**	**-**	**22,983**	**11,585,000**
Trading treasury notes	891,018	-	-	891,018	891,018	-	-	891,018
Total	**12,477,890**	**246,742**	**88,505**	**12,813,137**	**12,453,035**	**246,759**	**88,505**	**12,788,299**
Assets for which fair value is disclosed								
Cash in hand	1,800,529	-	-	1,800,529	1,800,506	-	-	1,800,506
Due from Central Bank	-	-	5,339,460	5,339,460	-	-	5,339,460	5,339,460
Due from banks	-	-	1,998,271	1,998,271	-	-	1,971,333	1,971,333
Loans and advances to customers	-	-	27,995,196	27,995,196	-	-	27,565,687	27,565,687
Financial lease receivables	-	-	668,235	668,235	-	-	-	-
Total	**1,800,529**	**-**	**36,001,162**	**37,801,691**	**1,800,506**	**-**	**34,876,480**	**36,676,986**

(Amounts in thousands RON)

44. Fair value (continued)

	Group				Bank			
	December 31, 2016				December 31, 2016			
Liabilities measured at fair value	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial liabilities								
Derivative financial instruments								
Interest rate swaps	-	43,094	-	43,094	-	43,094	-	43,094
Currency swaps	-	18,456	-	18,456	-	18,490	-	18,490
Forward foreign exchange contracts	-	28,077	-	28,077	-	28,077	-	28,077
Options	-	-	65,835	65,835	-	-	65,835	65,835
Total	**-**	**89,627**	**65,835**	**155,462**	**-**	**89,661**	**65,835**	**155,496**
Trading treasury notes	55,570	-	-	55,570	55,570	-	-	55,570
Total	**55,570**	**89,627**	**-**	**211,032**	**55,570**	**89,661**	**65,835**	**211,066**
Liabilities for which fair value is disclosed								
Due to banks	-	531,601	-	531,601	-	531,601	-	531,601
Due to customers	-	42,197,955	-	42,197,955	-	42,295,957	-	42,295,957
Borrowed funds	-	1,101,558	-	1,101,558	-	138,451	-	138,451
Total	**-**	**43,831,114**	**-**	**43,831,114**	**-**	**42,966,009**	**-**	**42,966,009**

44. Fair value (continued)

Financial instruments measured at fair value

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

Treasury notes are represented by treasury bills and bonds, and are classified as financial assets available for sale or financial instruments held for trading, being measured using a valuation technique based on market quotes published by Bloomberg or by Reuters (market approach).

Derivatives
The fair value of the derivatives is determined using valuation techniques commonly known on the market, such as discounted cash flows for swaps or Black-Sholes formula for options.

Firm derivates – interest rate swaps, currency swaps and forward foreign exchange contracts, are the main derivative products measured using as valuation technique the income approach (discounting cash flows) and incorporating observable inputs from market (foreign exchange spot rate, forward rates, interest rate rates, futures), both directly observable ones (explicit parameters) and indirectly observable ones.

The directly observable parameters are variables that come directly from the market and are presummed to be easily available, accesible to each market participant. The main explicit parameters used in valuation of firm financial instruments are interbank fixing FX rates published by NBR, interbank swap points, interbank bid/ask interest rates, futures quotes on EUR and USD. Implicit parameters are variables obtained through standard intermediary calculation, using market prices for relevant financial instruments. The yield curves designated at the level of each product and currency are fed with explicit parameters according to the pre-set configuration, facilitating the computation of implict parameters used in computing the fair vaue such as Zero-coupons, Discount Factors and Forward Interest Rates.

Conditional derivatives - FX options, interest rate options and equity options, are valued daily, using the mark-to-model approach. The model is calibrated to derive the value of the option based on the current market conditions (spot rates) and the future values presumed to be attained by the underlying (forward exchange rates, FRAs etc), integrating in the calculation the standard option-sensitivities (delta, gamma, vega, theta), along with information regarding the size of the positions and the liquidity of the instrument. The fair value is determined through SG's computation module, the values of the specific parameters being daily retrieved from the market and stored in the database, serving as direct input in the daily final formula or further used for the statistical calculation implied by the valuation process.

BRD manages the group of these financial asset s and liabilities (options) on the basis of the entity's net exposure to a particular market risk (foreign exchange, interest rate, price risk) and, according to the trading book policy in place, BRD assumes no residual market risk induced by option-trading. Any bought option is perfectly matched on the same day with a sold option, identical in terms of option type, underlying, exercise prices, maturity. The perfect back-to-back system is subject to daily controls performed at back-office level, to ensure that no mismatch occured and there is no residual open position on options. Therefore, the impact of a specific change on the estimated value on one non-observable parameter used on the valuation of an option classified/ accounted as financial asset is offset by same specific change on estimated value of the same non-observable parameter on the valuation of the mirror-replicated option classified/ accounted as financial liability.

44. Fair value (continued)

Equities

These assets are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the financial performance of the investee.
The fair value of equity instruments not listed classified as available for sale financial assets and consisting of ordinary shares of other entities is determined by using the net assets of the entities as at the end of the last closed reporting period. The entities net assets represent the best estimation of the current replacement cost that would be paid in order to replace the holding as it consists of the initial capital investment adjusted by the financial performance of the entity.

In the case of Visa share, following the acquisition of VISA Europe by VISA Inc, transaction which was closed in 2016, the Bank, as principal member, received a share of the sale proceeds, having both a cash component and a share in VISA Inc component. Following the SG approach, in order to determine the fair value of the share, the Bank adjusted the sale proceeds using some prudential haircuts (liquidity, litigation risks etc).

Fair value of financial assets and liabilities not carried at fair value

Financial assets

Deposits with banks, loans originated by the Group and leases are measured at amortized cost using the effective interest rate method less any impairment allowance.

For deposits with banks, amortized cost is estimated to approximate fair value due to their short–term nature, interest rates reflecting current market conditions and no significant transaction costs.

For loans and lease receivables the fair value is determined by using discounted cash-flows based on interest rate offered to similar products and similar time horizons.

Financial liabilities

The amortized cost of deposits from banks and customers is considered to approximate their respective fair values, since these items have predominantly short maturities, carry interest rates reflecting current market conditions and are settled without significant transaction costs.

For due to customers and borrowings amounts the fair value is determined by using discounted cash-flows based on interest rate offered to similar products and customers and with similar time horizons.

(Amounts in thousands RON)

44. Fair value (continued)

The following table presents the fair value and the carrying amount per type of financial instrument.

	Group				Bank			
	December 31, 2017		December 31, 2016		December 31, 2017		December 31, 2016	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Financial assets								
Cash in hand	1,924,214	1,924,214	1,800,529	1,800,529	1,924,188	1,924,188	1,800,506	1,800,506
Due from Central Bank	5,757,953	5,757,953	5,339,460	5,339,460	5,757,953	5,757,953	5,339,460	5,339,460
Due from banks	2,549,512	2,549,512	1,998,271	1,998,271	2,530,468	2,530,468	1,971,333	1,971,333
Loans and advances to customers	29,608,422	29,756,635	27,838,705	27,995,196	29,011,925	29,261,379	27,384,110	27,565,687
Financial lease receivables	727,768	727,965	663,517	668,235	-	-	-	-
	40,567,869	**40,716,279**	**37,640,482**	**37,801,691**	**39,224,534**	**39,473,988**	**36,495,409**	**36,676,986**
Financial liabilities								
Due to banks	885,970	885,970	531,601	531,601	885,970	885,970	531,601	531,601
Due to customers	44,219,686	44,220,105	42,192,749	42,197,955	44,387,308	44,387,729	42,290,738	42,295,957
Borrowed funds	1,252,455	1,252,455	1,101,558	1,101,558	48,530	48,530	138,451	138,451
	46,358,111	**46,358,530**	**43,825,908**	**43,831,114**	**45,321,808**	**45,322,229**	**42,960,790**	**42,966,009**

(Amounts in thousands RON)

44. Fair value (continued)

The methods and significant assumptions applied in determining the fair value of the elements in the table above are listed below.

The fair value of fixed rate instruments is estimated by discounting the maturing cash flows with discount factors derived from the rates offered to similar clients, for similar products on similar maturities. The fair value of floating instruments is estimated by discounting from the next re-pricing date using as discount factors rates offered to similar clients, for similar products on similar time horizons.

Changes in the credit quality of loans within the portfolio are not taken into account in determining gross fair values, as the impact of impairment is recognized separately by deducting the amount of the allowance for credit losses from both carrying and fair values.

For the purposes of the fair value disclosure, the interest accrued to date is included in the carrying value of the financial instruments.

The transfers between levels of fair value hierarchy are deemed to have occurred the date of the event or change in circumstances that caused the transfer, but not later that the end of the reporting period.

Movement in level 3:

	Equity investments (not listed)	Municipal Bonds	Options (A)	Options (L)
Closing balance as at December 31, 2015	**86,752**	**272,040**	**-**	**-**
Transfers into Level 3	-	-	71,669	72,281
Acquisitions	18,878	4,911	15,061	15,061
Sales	(79,902)	-	(3,339)	(3,339)
Reimbursements	-	(12,466)	(23,633)	(23,633)
Gain losses from change in fair value	(2,745)	(2,076)	5,764	5,465
Reclassification	-	(262,409)	-	-
Closing balance as at December 31, 2016	**22,983**	**-**	**65,522**	**65,835**
Acquisitions	-	-	29,950	29,950
Sales	(8)	-	(1,357)	(1,357)
Reimbursements	-	-	(46,589)	(46,589)
Gain losses from change in fair value	11,154	-	(1,336)	(1,572)
Translation differences	(1,807)	-	-	-
Closing balance as at December 31, 2017	**32,322**	**-**	**46,190**	**46,267**

In June 2016 the Group and Bank reclassified the municipal bonds (Timis Council and Bucharest Municipality) from financial assets available for sale (December 31, 2015: 272,040) to “loans and advances to customers” and measures them at amortised cost, amounting 257,311 at December 31, 2017 (263,728 at December 31, 2016).