FIRSTBANK

FIRST BANK SA

FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2018

PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION (IFRS) AND NATIONAL BANK OF ROMANIA ORDER NO. 27/2010 FOR THE APPROVAL OF ACCOUNTING REGULATION IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION, WITH SUBSEQUENT AMENDMENTS, ("ORDER 27/2010")

Translation from the original Romanian version.

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Translation from the original Romanian version.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders,
First Bank S.A.
Bucharest, Romania

Report on the Audit of financial statements

Opinion

1. We have audited financial statements of First Bank S.A. (the "Bank"), with registered office in Sos. Nicolae Titulescu 29-31, District 1, Bucharest, Romania, identified by the unique tax registration code RO 7025592 which comprise the statement of financial position as at December 31, 2018, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, including a summary of significant accounting policies and notes to the financial statements.

2. The financial statements as at December 31, 2018 are identified as follows:

• Equity	RON 600,637 thousand
• Net loss for the financial year	RON 35,659 thousand

3. In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS) and National Bank of Romania Order no. 27/2010 for the approval of Accounting regulation in accordance with International Financial Reporting Standards as adopted by the European Union, with subsequent amendments, ("Order 27/2010").

Basis for Opinion

4. We conducted our audit in accordance with International Standards on Auditing (ISA), Regulation (EU) No. 537/2014 of the European Parliament and the Council (forth named The "Regulation") and Law 162/2017 *regarding the statutory audit of the annual financial statements and annual consolidated financial statements and amendment of certain acts of legislation* ("the Law"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), in accordance with ethical requirements relevant for the audit of the financial statements in Romania including the Regulation and the Law, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

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Nature of the area of focus	How our audit addressed the key audit matter
Impairment of loans and advances to customers	
The Bank applied IFRS 9 – "Financial Instruments" as of the date of its effectiveness on 1 January 2018. The key change arising from the adoption of IFRS 9 is that the Bank's credit losses are now based on expected credit losses (ECL) rather that an incurred loss model, as detailed in impairment policy from Note 2.14.	We have examined the classification and measurement and the related impairment charges for loans and advances to customers and evaluated the implementation of IFRS 9 using our risk assessment, industry knowledge and involving our Risk Advisory experts. We performed the following procedures: • Testing of key controls including:
As presented in Note 33.1 form the financial statements, the Bank has booked as at 31 December 2018 Impairment allowances of RON 160,653 thousand for the Loan and advances to customers in gross amount of RON 3,831,929 thousand. We considered this area a key audit matter due to the following reasons: • Loans and advances to customers form a major portion of the total assets; and • Significance of the Management judgements applied in classification and measurement of loans and advances, and determining related impairment requirements. Key areas of judgement included: - The interpretation of the requirements to determine impairment under the application of IFRS 9, which is reflected in the expected credit loss model; - Assumptions used in the expected credit loss models to assess the credit risk related to the exposure and the expected future cash flows of the customers; - The identification of exposures with a significant deterioration in credit quality.	- Controls for quality assurance of the source data used in developing and calibration ECL related models; - Controls related to timely identification of impairment triggers, including significant increase in credit risk; - Controls related to the debtors' financial performance assessment and estimation of future cash flows. • Obtaining and checking the evidence to support the assumptions used in: - Development of the models for computation of the key risk parameters (12 month probability of default, lifetime probability of default and Loss given default), including procedures on the source data quality; - Development of the expected credit loss models; - Development of the stage allocation; - Development of models to reflect the potential impact of future macro-economic conditions in the ECL computation. • Testing the implementation of the new methodology into the ECL computation systems, including: - Testing the general IT controls related to data sources and computations of ECL; - Assessing on a sample basis of the credit quality and stage allocation; - Testing on a sample basis the ECL computations. • Considering the completeness and adequacy of disclosures related to loans and advances to customers and related ECL in accordance with IFRS.

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Interest and Fee Income Recognition	
Refer to Note 26 and 27 of the financial statements For the year ended 31 December 2018 the interest income represents RON 266,320 thousand and fee and commission income represents RON 105,778 thousand, the main source being loans to customers. These are the main contributors to the operating income of the Bank affecting the Bank's profitability. Interest income accrued over the expected life of the financial instrument using the effective interest rate, and recognition of fee income depends on the Management judgements relating to the following: • Fees that are directly attributable to the financial instrument are part of the effective interest rate and accrued over the expected life of such an instrument and are presented as interest income. • Fees for services provided are recognized when service is provided and are presented as fee and commission income. • Fees for the execution of an act are recognized when the act has been completed and are presented as fee and commission income. The high volume of individually small transactions which depend on data quality of interest and fee inputs and on IT solutions for their recording, and the significant Management judgements applied resulted in this matter being identified as a key audit matter.	We tested the design and operating effectiveness of the key internal controls focused on: • Interest and fee inputs on loans to customers; • Recording and changes of fees and interest rates; • Management oversight and control on interest and fee income, including budget monitoring; • IT controls relating to access rights and change management of relevant automated controls with the assistance of our IT specialists. We performed also the following procedures with regard to interest and fees revenue recognition: - We evaluated the accounting treatment performed by the Bank in respect of fees charged to clients to determine whether the methodology complies with the requirement of the relevant accounting standards. We have focused our testing on challenging the classification of: • Fees that are identified as directly attributable to the financial instrument and are part of the effective interest rate; • Fees that are not identified as directly attributable to the financial instrument. - We assessed the completeness and accuracy of data used for the calculation of interest and fee income. - We evaluated the mathematical formula used for accruing the relevant income over expected life of the loan. - We have assessed the interest and fee income by building our own expectation on the revenue and compared with the actual results of the Bank. - We considered the completeness and accuracy of disclosures relating to revenue in compliance with IFRS.

Other information – Administrator's Report

6. Management is responsible for preparation and presentation of the other information. The other information comprises the Administrator' report which includes the non-financial information declaration, but does not include the financial statements and our auditors report thereon.

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

   In connection with our audit of the financial statements for the year ended 31 December 2018, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

   With respect to the Administrator's report, we read and report if this has been prepared, in all material respects, in accordance with the provisions of the National Bank of Romania Order no. 27/2010, articles 11-13.

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On the sole basis of the procedures performed within the audit of the financial statements, in our opinion:

a) The information included in the administrators' report for the financial year for which the financial statements have been prepared are consistent, in all material respects, with these financial statements;

b) The administrators' report has been prepared, in all material respects, in accordance with the provisions of the National Bank of Romania Order no. 27/2010, articles 11-13.

Based on our knowledge and understanding concerning the Bank and its environment gained during the audit on the financial statements prepared as at 31 December 2018, we are required to report if we have identified a material misstatement of this Administrator's report. We have nothing to report in this regard.

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

7. Management is responsible for the preparation and fair presentation of the financial statements in accordance with Order 27/2010 and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

9. Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

    - Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

    - Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

    - Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

    - Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

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- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Report on Other Legal and Regulatory Requirements

15. We have been appointed by the General Assembly of Shareholders on 03.05.2018 to audit the financial statements of Piraeus Bank Romania S.A.(First Bank S.A. , starting October 23, 2018) for the financial year ended December 31, 2018. The uninterrupted total duration of our commitment is 2 years, covering the financial year ended as of 31 December 2017 and 31 December 2018.

We confirm that:

- Our audit opinion is consistent with the additional report submitted to the Audit Committee of the Bank that we issued the same date we issued and this report. Also, in conducting our audit, we have retained our independence from the audited entity.

- We have not provided for the Bank the non-audit services referred to in Article 5 (1) of EU Regulation No. 537/2014.

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

Claudiu Ghiurluc, Director Audit

For signature, please refer to the original Romanian version.

Registered with the Authority for the Public Oversight of the Statutory Audit Activity under number 3113

On behalf of:

DELOITTE AUDIT S.R.L.

Registered with the Authority for the Public Oversight of the Statutory Audit Activity under number 25

Sos. Nicolae Titulescu nr. 4- 8, America House, Intrarea de Est,
Etajul 2 - zona Deloitte şi Etajul 3, sector 1,
Bucharest, Romania
May 7, 2019

FIRSTBANK

STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 DECEMBER 2018
(all amounts in RON thousand unless otherwise stated)

	Note	Financial year ended 31 December 2018	Financial year ended 31 December 2017
Cash and balances with Central Bank	4, 5	821,969	1,010,758
Trading securities	10	-	240,140
Derivative financial assets	12	1,820	934
Other financial assets at fair value through profit or loss	6	2,359	2,269
Due from other banks	7	200,703	458,024
Investments in debt securities	10	1,430,829	-
Loans and advances to customers	8,9,33	3,671,276	3,450,399
Investments securities available for sale	10	-	730,687
Repurchase receivables	11	317,467	377,230
Investment property	13	30,220	30,879
Current income tax prepayment	32	4,101	2,725
Non-current income tax asset	32	41,717	-
Other financial assets	16.1	14,570	9,610
Other non-financial assets	16.2	8,925	9,349
Deferred income tax asset	32	1,936	15,070
Intangible assets	15	43,489	38,657
Premises and equipment	14	115,451	24,420
Repossessed assets from foreclosed loans contracts	17	32,065	38,424
Total assets		**6,738,897**	**6,439,575**
Due to other banks	18	620,544	980,193
Customer accounts	19	5,132,903	4,347,141
Derivative financial liabilities	12	1,437	6,211
Other financial liabilities at fair value through profit or loss	7	2,357	2,268
Other financial liabilities	20.1	54,433	50,317
Other non-financial liabilities	20.2	22,472	34,366
Provisions for risks and charges	21	117,437	78,842
Subordinated debts	22	186,678	256,344
Total liabilities		**6,138,261**	**5,755,682**
Share capital	24	1,163,834	1,163,834
(Accumulated loss) / Retained earnings		(640,227)	(560,421)
Other reserves	25	77,029	80,480
Total shareholders' equity		**600,636**	**683,893**
Total liabilities and shareholders' Equity		**6,738,897**	**6,439,575**

The financial statements were approved by the Board of Directors on May 7, 2019 and were signed on its behalf by:

R.C. J40 / 1441 / 199[illegible]
FIRST BANK S.A.
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BUCURESTI

Dominic Bruynseels
Executive President

Viorel Mischie
Vice-president

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018
(all amounts in RON thousand unless otherwise stated)

	Note	Financial year ended 31 December 2018	Financial year ended 31 December 2017
Interest and similar income		266,320	233,051
Interest expense and similar charges		(59,611)	(65,684)
Net interest income	26	206,709	167,367
Provision for loan impairment release	33.1	21,266	11,037
Net interest income after provision for loan impairment		**227,975**	**178,404**
Fee and commission income		105,778	135,364
Fee and commission expense		(18,408)	(18,176)
Net fee and commission income	27	**87,370**	**117,188**
Gains less (losses) from trading in foreign currencies	29	22,769	23,001
Gains less (losses) from financial derivatives	28	19,057	30,130
Gains less (losses) from disposal of financial instruments at fair value through other comprehensive income/ available for sale	25	1,480	2,089
Gains less (losses) from trading securities		-	(17,400)
Gains less (losses) from investment property valuation at fair value		(659)	-
Other operating income	30	6,642	6,995
Other income – total		**49,289**	**44,815**
Administrative and other operating expenses	31	(387,642)	(331,277)
Cost of sales for repossessed assets from foreclosed loans contracts	17	(9,072)	(9,860)
Sales of repossessed assets from foreclosed loans contracts	17	10,822	11,423
Profit / (Loss) before income tax		**(21,258)**	**10,693**
Income tax (expense) / credit	32	(14,401)	78
Profit / (Loss) for the year		**(35,659)**	**10,771**

(all amounts in RON thousand unless otherwise stated)

	Note	Financial year ended 31 December 2018	Financial year ended 31 December 2017
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale investments result, net of tax, out of which:	**25**	-	**(2,104)**
Gains less (losses) arising during the year	**25**	-	(416)
(Gains) less losses reclassified to profit and loss upon disposal	**25**	-	(2,089)
Income tax recorded directly in other comprehensive income		-	401
Debt securities at fair value through other comprehensive income:	**25**	**(3,451)**	**-**
Gains less losses arising during the year	**25**	(2,645)	-
Gains less losses reclassified to profit or loss upon disposal	**25**	(1,481)	-
Income tax recorded directly in other comprehensive income		675	-
Total comprehensive income/(loss) for the period		**(39,110)**	**8,667**

The financial statements were approved by the Board of Directors on May 7, 2019 and were signed on its behalf by:

Dominic Bruynseels
Executive President

R.C. J40/14.../19..
FIRST BANK
4
BUCUREȘTI

Viorel Mischie
Vice-president

FIRSTBANK

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018
(all amounts in RON thousand unless otherwise stated)

	Note	Share capital	Revaluation reserve for AFS Securities	Revaluation reserve for securities at FVOCI	Other reserves	Retained earnings	Total
Balance as at 31 December 2015		**1,163,834**	**(4,407)**	**-**	**76,162**	**(539,112)**	**700,884**
Loss for the year		-	-	-	-	(31,545)	(31,545)
Other comprehensive income for the period		-	5,887	-	-	-	5,887
Total comprehensive income		**-**	**5,887**	**-**	**-**	**(31,545)**	**(25,658)**
Balance as at 31 December 2016		**1,163,834**	**1,480**	**-**	**83,529**	**(570,657)**	**675,226**
Profit for the year		-	-	-	-	10,771	10,771
Other comprehensive income for the period		-	(2,104)	-		-	(2,104)
Statutory reserve increase		-	-	-	535	(535)	-
Total comprehensive income		**-**	**(2,104)**	**-**	**535**	**10,236**	**8,667**
Balance as at 31 December 2017		**1,163,834**	**(624)**	**-**	**81,104**	**(560,421)**	**683,893**
Balance as at 01 January 2018		**1,163,834**		(624)	**81,104**	**(560,421)**	**683,893**
Adoption of IFRS 9 -remeasurement (note 2.4)		-		-	-	(44,147)	(44,147)
Restated balance at 1 January 2018		**1,163,834**	**-**	**(624)**	**81,104**	**(604,568)**	**639,746**
Loss for the year		-	-			(35,659)	(35,659)
Other comprehensive income for the period		-	-	(3,451)	-	-	(3,451)
Total comprehensive income		**-**	**-**	**(3,451)**	**-**	**(35,659)**	**(39,110)**
Balance as at 31 December 2018		**1,163,834**		**(4,075)**	**81,104**	**(640,227)**	**600,636**

The financial statements were approved by the Board of Directors on May 7, 2019 and were signed on its behalf by:

Dominic Bruynseels
Executive President

Viorel Mischie
Vice-president

Notes attached are an integrant part of these financial statements.
Translation from the original Romanian version.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018
(all amounts in RON thousand unless otherwise stated)

	Note	Financial year ended 31 December 2018	Financial year ended 31 December 2017
Cash flows from operating activities			
Interest received		239,752	228,389
Interest paid		(55,575)	(72,581)
Fee and commission received		107,264	135,480
Fee and commission paid		(18,998)	(17,586)
Income received from trading securities		(0)	(28,365)
Income received from financial derivatives		13,397	26,742
Income received from trading in foreign currencies		18,801	28,476
Income received from investment securities		1,480	2,089
Other Operating Income/(Expenses)		(22,914)	18,415
Sales of loans and recoveries on loans previously written off		52,114	42,167
Cash payments to employees		(145,449)	(118,206)
Cash payments to third parties (suppliers)		(122,317)	(155,622)
Income tax paid/ received		(43,210)	10,300
Net cash flows from operating activities before changes in operating assets and liabilities		**23,881**	**99,698**
Change in operating assets:			
(Increase)/Decrease in due from other banks		(10,461)	39,316
(Increase)/Decrease in loans and advances to customers		(298,507)	(251,123)
(Increase)/Decrease in trading securities		-	(561)
(Increase) /Decrease in other assets		(2,899)	4,816
Total changes in operating assets		**(311,867)**	**(207,552)**
Change in operating liabilities:			
Decrease in deposits due to other banks		(335,303)	(113,298)
Increase/(Decrease) in amounts due to customers		769,033	(71,089)
Decrease in other liabilities		(83,943)	(64,815)
Total changes in operating liabilities		**349,789**	**(249,203)**
Net cash from/(used in) in operating activities		**61,803**	**(357,057)**

Notes attached are an integrant part of these financial statements.
Translation from the original Romanian version.

FIRSTBANK

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

(all amounts in RON thousand unless otherwise stated)

	Note	Financial year ended 31 December 2018	Financial year ended 31 December 2017
Cash flows from investing activities			
Acquisition of investment securities FVOCI/ available for sale	10	(1,372,853)	(294,833)
Proceeds from sale of investment securities FVTOCI/ available for sale	10	969,759	241,407
Interest from investment securities	10	29,866	5,976
Acquisition of property, equipment and intangible assets	14, 15	(121,382)	(27,139)
Net cash from/(used in) investing activities		**(494,611)**	**(74,589)**
Cash flows from financing activities			
Drawdowns from borrowing		-	24,240
Repayment of borrowings		(24,230)	(3,479)
Cash out from interest for borrowing		(87)	(190)
Net cash from/(used in) financing activities		**(24,317)**	**20,571**
Effect of exchange rate changes on cash and cash equivalents		363	(489)
Net increase/(decrease) in cash and cash equivalents		(456,762)	(411,561)
Cash and cash equivalents at 1 January	**4**	**1,426,709**	**1,838,271**
Cash and cash equivalents at 31 December	**4**	**969,947**	**1,426,710**

The financial statements were approved by the Board of Directors on May 7, 2019 and were signed on its behalf by:

R.C. J40 / 1441 / 1995 FIRST BANK 4 BUCUREST

Dominic Bruynseels
Executive President

Viorel Mischie
Vice-president

(all amounts in RON thousand unless otherwise stated)

1 THE BANK AND ITS OPERATIONS

First Bank SA ("First Bank" or the "Bank") is registered in Romania since 1995 as a joint stock Company and is licensed by the National Bank of Romania to conduct banking activities.

The Bank provides retail and commercial banking services to companies and private individuals. These include: accounts opening, attracting deposits, domestic and international payments, foreign exchange transactions, working capital finance, medium and long term facilities, retail loans, bank guarantees and letter of credits. In addition, First Bank offers loan portfolio administration services. Currently, the Bank is servicing business and retail loans of two major Greek lenders.

The Bank operates through its head office located in Bucharest and a network of 99 branches and offices (31 December 2017: 99) located in Romania. The Bank had 1,294 employees at the end of 2018 (2017: 1,263).

The registered office of the Bank is: Sos. Nicolae Titulescu nr. 29-31, Bucharest, Sector 1, ROMANIA.

First Bank is directly controlled by JCF IV Tiger Holdings S.à r.l. (Luxembourg), with registered office in 5, rue Guillaume Kroll, L-1882 Luxembourg, Grand Duchy of Luxembourg.

Up to 28th of June 2018, the Bank was part of Piraeus Bank Group (Piraeus Bank S.A., Greece), which is listed on the Athens Stock Exchange, having its registered office is 4, Amerikis Str, 10 364 Athens, Greece.
An agreement for the sale and purchase of 99.99973% of Piraeus Bank Group's shares in Piraeus Bank Romania was signed on 21 December 2017 between Piraeus Bank S.A. and J.C. Flowers & Co.
On 28th of June 2018, J.C. Flowers & Co. has completed the acquisition process of First Bank SA (former Piraeus Bank Romania SA) having received the necessary approvals from the National Bank of Romania.

J.C. Flowers & Co. is a leading private investment firm dedicated to investing globally in the financial services industry. Founded in 1998, the firm has invested more than US$ 15 billion of capital in 53 portfolio companies in 18 countries, across a range of industry subsectors that include banking, insurance and reinsurance, securities firms, specialty finance, and services and asset management.
With more than US$ 6 billion of assets under management, J.C. Flowers & Co. has offices in New York and London.

In October 2018, the Bank changed its name from "Piraeus Bank Romania SA" to "First Bank SA".

The shareholding structure of the Bank is presented below.

	31 December 2018	31 December 2017
JCF IV Tiger Holdings S.a.r.l	99.99%	-
Piraeus Bank Greece	-	99.99%
Individuals	0.01%	0.01%
Total	**100.00%**	**100.00%**

The Bank does not hold subsidiaries or qualified participations in other entities.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") and National Bank of Romania Order 27/2010, as amended ("NBR Order 27/2010"), under the historical cost convention as modified by the revaluation of available-for-sale investments (through other comprehensive income), trading securities and derivative transactions at fair value through profit and loss account. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

2.2 Functional and presentation currency

a) Functional and presentation currency

Functional currency of the Bank is the currency of the primary economic environment in which it operates. The financial statements are presented in Romanian Leu ("RON") which is the Bank's functional and presentation currency, rounded to the nearest thousands, except when otherwise indicated.

b) Transaction and balances

Transactions denominated in foreign currency are translated into the functional currency at the official exchange rate valid at the transaction date. Exchange differences resulting from the settlement of transactions denominated in foreign currency are included in profit or loss at the time of settlement using the exchange rate ruling on that date.

Monetary assets and liabilities denominated in foreign currency are expressed in RON as at the balance sheet date. At 31 December 2018 the exchange rate used for translating foreign currency balances was EUR 1 = RON 4.6639 (2017: EUR 1 = RON 4.6597), USD 1 = RON 4.0736 (2017: USD 1 = RON 3.8915) and CHF 1 = RON 4.1404 (2017: CHF 1 = RON 3.9900).

Foreign currency gains and losses arising from the translation of monetary assets and liabilities are reflected in the profit or loss for the year. Changes in the fair value of monetary securities denominated in foreign currency classified as fair value through other comprehensive income/available for sale are analysed by comparison between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences on non-monetary items, such as equities classified as available for sale financial assets, are included in the fair value reserve in other comprehensive income.

2.3 Use of estimates and judgments

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

The significant accounting methods and policies set out below have been applied consistently to all periods presented in these financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 New Standards and Interpretations

(a) Adoption of revised/amended IFRS

The following new standards, amendments to the existing standards and new interpretation issued by the International Accounting Standards Board (IASB) and adopted by the European Union ("EU"), applicable to the Bank, are effective for the current reporting period:

- IFRS 9 "Financial Instruments" - adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018),

- Amendments to IFRS 1 and IAS 28 due to "Improvements to IFRSs (cycle 2014 -2016)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 7 February 2018 (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),

- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" – adopted by the EU on 28 March 2018 (effective for annual periods beginning on or after 1 January 2018).

With the exception of IFRS 9, the Bank considers that the adoption of these standards, revisions and interpretations has not led to any material changes in its annual financial statements.

Transition to IFRS 9

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement and introduces new requirements for classification and measurement, impairment, and hedge accounting. The bank has adopted IFRS 9 with a date of transition of 1 January 2018.

As permitted by the transitional provisions of IFRS 9, the bank chosen not to restate comparative figures. Therefore the comparative information for 2017 is reported under IAS 39 and is not comparable to information reported for 2018. Differences in the carrying amounts of financial assets and financial liabilities at the date of transition were recognized in retained earnings.

Changes to classification and measurement:

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. This single, principle based approach replaces existing rule-based requirements under IAS 39.

The IAS 39 measurement categories of financial assets (fair value through profit or loss - FVPL, available for sale - AFS, held-to-maturity and loans and receivables) have been replaced by:

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

The accounting for financial liabilities remains largely the same as it was under IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVPL.

The Bank's classification of its financial assets and liabilities is explained in the note below Table A. The quantitative impact of applying IFRS 9 as at 1 January 2018 is disclosed in note below Table A.

(all amounts in RON thousand unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 New Standards and Interpretations (continued)

(a) Adoption of revised/amended IFRS (continued)

Changes to the impairment calculation:

The adoption of IFRS 9 has fundamentally changed the Bank's assessment of loan loss impairments by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

IFRS 9 requires the Bank to record an allowance adjustment for ECLs for all financial assets not held at FVPL or for equity instruments at FVOCI, together with loan commitments and financial guarantee contracts. Specifically, the new standard requires entities to account for ECLs from the initial recognition of financial assets and to recognise full lifetime expected losses on a more timely basis. Hence, the allowance adjustment is based on expected losses in the next twelve months unless there has been a significant increase in credit risk since origination or an indication of default, in which case the ECL's is recorded as the expected losses for the entire financial asset life time.
If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset.

Details of the Bank's impairment method are disclosed in Note 2.14.

Table A:

The table below summarizes the book value reconciliations of the Bank's assets and liabilities upon the transition from the previous classification categories under IAS 39 at 31 December 2017 to the new classification categories under IFRS 9 at January 1, 2018:

	31 December 2017 IAS39	Reclassification	Re-measurement	1 January 2018 IFRS9
Assets				
Cash and balances with Central Bank	1,010,758	-	(81)	1,010,677
Trading securities	240,140	(240,140)	-	-
Derivative financial assets	934	-	-	934
Other financial assets at fair value	2,269	-	-	2,269
through profit or loss		-	-	-
Due from other banks	458,024	-	(26)	457,998
Investments in debt securities	1,107,917	240,140	-	1,348,057
- Available for sale	1,107,917	(1,107,917)	-	-
- Measured at fair value through other comprehensive income	-	1,348,057	-	1,348,057
Loans and advances to customers	3,450,399	-	(44,203)	3,406,196
Investment property	30,879	-	-	30,879
Current income tax prepayment	2,725	-	-	2,725
Other financial assets	9,610	-	-	9,610
Other non-financial assets	9,349	-	-	9,349
Deferred income tax asset	15,070	-	-	15,070
Intangible assets	38,657	-	-	38,657
Premises and equipment	24,420	-	-	24,420
Repossessed assets from foreclosed loans contracts	38,424	-	-	38,424
Total assets	**6,439,575**	**-**	**(44,310)**	**6,395,265**

(all amounts in RON thousand unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 New Standards and Interpretations (continued)

(a) Adoption of revised/amended IFRS (continued)

	31 December 2017 IAS39	Reclassification	Re-measurement	1 January 2018 IFRS9
Due to other banks	980,193	-	-	980,193
Customer accounts	4,347,141	-	-	4,347,141
Derivative financial liabilities	6,211	-	-	6,211
Financial liabilities at fair value through profit or loss	2,268	-	-	2,268
Other financial liabilities	50,317	-	(163)	50,154
Other non-financial liabilities	34,366	-	-	34,366
Provisions for risks and charges	78,842	-	-	78,842
Subordinated debts	256,344	-	-	256,344
Total liabilities	**5,755,682**	**-**	**(163)**	**5,755,519**
Share capital	1,163,834	-	-	1,163,834
(Accumulated loss) / Retained earnings	(560,421)	-	(44,147)	(604,568)
Other reserves	80,480	-	-	80,480
Shareholders' equity	**683,893**	**-**	**(44,147)**	**639,746**
Total liabilities and shareholders' equity	**6,439,575**	**-**	**(44,310)**	**6,395,265**
Commitments and contingencies	**736,903**	**-**	**163**	**737,066**

(b) Standards and Interpretations issued by the IASB and adopted by the EU but not yet effective

As at the reporting date of these financial statements the following new standards, amendments to the existing standards and interpretations issued by the IASB and adopted by the EU, applicable to the Bank, were in issue but not yet effective:

IFRS 16 "Leases" – adopted by the EU on 31 October 2017.

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.

The Bank is a lessee for buildings and vehicles and estimates to record a right of use (ROU) / lease liability at the first time application of approximately 1.2% of total Bank's assets. At the date of first time application the Bank will elect to apply the exception of ROU calculation for short term leases, lower than12 months, and low value assets leases.

Amendments to IFRS 9 "Financial Instruments" - Prepayment Features with Negative Compensation – adopted by the EU on 22 March 2018.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 New Standards and Interpretations (continued)

(b) Standards and Interpretations issued by the IASB and adopted by the EU but not yet effective (continued)

The Amendments are effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendments allow 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.

IFRIC Interpretation 23 "Uncertainty over Income Tax Treatments" – adopted by the EU on 23 October 2018.

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.

(c) Standards and Interpretations issued by the IASB but not yet adopted by the EU

At the reporting date, IFRSs as adopted by the EU do not significantly differ from regulations adopted by the IASB except for the following standards and amendments to the existing standards, which are applicable to the Bank and which were not endorsed as at the date of authorisation of these financial statements:

- Amendments to 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 and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),

- Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" - Definition of Material (effective for annual periods beginning on or after 1 January 2020),

- Amendments to IAS 28 "Investments in Associates and Joint Ventures" - Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019),

- Amendments to various standards due to "Improvements to IFRSs (cycle 2015 -2017)" resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019),

- Amendments to References to the Conceptual Framework in IFRS Standards (effective for annual periods beginning on or after 1 January 2020).

(d) Early adoption of standards

The Bank did not early-adopt new or amended standards in 2018.

2.5 Going concern

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Accounting for the effect of hyperinflation

Romania has previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29"). IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy to be restated in terms of the measuring unit current at the end of reporting period (i.e. non-monetary items are restated using a general price index from the date of acquisition or contribution). As the characteristics of the economic environment of Romania indicate that hyperinflation has ceased, effective from 1 January 2004, the Bank no longer applies the provisions of IAS 29. Accordingly, the amounts expressed in the measuring unit current at 31 December 2003 are treated as the basis for the carrying amounts in these financial statements.

2.7 Financial assets and liabilities

2.7.1 Financial assets

a) Classification

Starting 1st of January 2018, in accordance with IFRS 9 classification, the Bank classifies financial assets, in the following measurement categories:

- Financial assets measured at amortised cost;
- Fair value through other comprehensive income (FVOCI);
- Fair value through profit and loss (FVPL).

Classification and subsequent measurement of financial assets is generally based on the Bank's business model to manage the assets and the cash flow characteristics of the assets.

Before 1 January 2018, the Bank classified its financial assets as loans and receivables (amortised cost), FVPL or available-for- sale category based on:

- intention to sell or repurchase in the near term
- designation upon initial recognition as at FVPL or as available-for-sale
- positive intention and ability to hold until maturity

Starting 1st of January 2018 the Bank classifies its financial assets into one of the following categories based on the assessment of business model and SPPI characteristics, as follows:

- Financial assets that are held for collection of contractual cash flows and cash flows represent solely payments of capital and interest (SPPI) are classified and measured at amortised cost. In this category the Bank includes the loans granted to customers, deposits placed with banks and sub-portfolio of government bonds.
- Financial assets that are held for collection of contractual cash flows and for selling the assets and the contractual cash flows represent solely payments of capital and interest are measured at fair value through other comprehensive income. In this category the Bank includes a sub-portfolio of government bonds.
- Financial assets that are held for trading, regardless of the cash flow characteristics are measured at fair value through profit and loss. Derivatives are also categorised as held for trading unless they are designated as hedges.

Financial assets measured at amortised cost

The Bank measures financial assets at amortised cost if the following conditions are cumulatively met:

- the financial asset is held to collect the contractual cash flows; and
- the contractual terms of the financial asset generate, at certain dates, cash flows that are exclusively principal payments and interest on the principal due.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Financial assets and liabilities (continued)

2.7.1 Financial assets (continued)

a) Classification (continued)

In order to verify these conditions, the Bank assesses loan agreements in respect of exclusive collections of principal and interest, hereinafter referred to as the SPPI test.

The purpose of the SPPI test is to determine whether an agreement signed between the parties generates cash flows that represent only principal repayments and interest payments calculated at the principal amount at the dates convened in the schedule agreed upon by the parties. The Bank considers that a financial asset can be measured at amortised cost only if it meets the conditions of the SPPI test. More complex agreements, which provide not only cash flows from principal and interest payments, should be measured at fair value through profit or loss.

The above category is measured at amortised cost using effective interest method and is periodically assessed for expected credit losses.

During the implementation of IFRS 9, financial assets measured at amortised cost under IAS 39 were classified as financial assets at amortised cost in accordance with IFRS 9.

Financial assets measured at fair value through other comprehensive income

In this category are classified the financial assets that satisfy both of the following criteria:

- are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets,
- the contractual terms of the asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The above category is periodically assessed for expected credit losses.

Equity instruments that are not held for trading are measured at fair value through other comprehensive income, with no recycling of gains or losses to profit or loss on derecognition. With the exception of dividends, which are directly recognized in profit or loss, all other gains and losses arising from those instruments are directly recognized in other comprehensive income and are not reclassified to profit or loss.

For those equity instruments there is no impairment assessment.

Financial assets at fair value through profit or loss

Financial assets included in this category are:

- those acquired principally for the purpose of selling in the near term to obtain short term profit (held for trading).
- those that do not meet the criteria to be classified into one of the above categories
- those the Bank designated, at initial recognition, as at fair value through profit or loss; this classification option, which is irrevocable, is used when the designation eliminates an accounting mismatch which would otherwise arise from measuring financial assets and liabilities on a different basis (i.e. amortized cost) in relation to another financial asset or liability (i.e. derivatives which are measured at fair value through profit or loss).

As at the reporting date, the Bank had not designated, at initial recognition, any financial assets as at fair value through profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Financial assets and liabilities (continued)

2.7.1 Financial assets (continued)

b) Recognition, de-recognition and initial measurement

The Bank recognises a financial asset in its statement of financial position when, and only when, the Bank becomes party to the contractual provisions of the instrument.

A regular way purchase or sale of financial assets is recognised using either trade date accounting or settlement date accounting. The Bank applies the same method consistently for all purchases and sales of financial assets having the similar classification.

A contract that requires or permits net settlement of the change in the value of the contract is not a regular way contract. Such a contract is accounted for as a derivative in the period between the trade date and the settlement date.

The trade date is the date that the Bank commits itself to purchase or sell an asset. Trade date accounting refers to:

(i) the recognition of an asset to be received and the liability to pay for it on the trade date, and
(ii) the derecognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date.

The settlement date is the date that an asset is delivered to or by the Bank. Settlement date accounting refers to:

(i) the recognition of an asset on the day it is received by the Bank, and
(ii) the derecognition of an asset and recognition of any gain or loss on disposal on the day that it is delivered by the Bank.

At initial recognition, the Bank measures a financial asset at its fair value minus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset.

The fair value of a financial asset at initial recognition is normally the transaction price (i.e. the fair value of the consideration given).

If the Bank determines that the fair value at initial recognition differs from the transaction price, the Bank shall account for that instrument at that date as follows:

(a) at fair value less transaction costs, if that fair value is evidenced by a quoted price in an active market for an identical asset or based on a valuation technique that uses only data from observable markets. The Bank will recognise the difference between the fair value at initial recognition and the transaction price as a gain or loss.

(b) in all other cases, at fair value less transaction costs, adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the Bank will recognise that deferred difference as a gain or loss only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership. The transfer is considered to be effective only if the price of transferred financial assets is cashed by the Bank.
The price will be recognised as income at the time of its encashment.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Financial assets and liabilities (continued)

2.7.1 Financial assets (continued)

b) Recognition, de-recognition and initial measurement (continued)

When the Bank retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), the Bank treats the transaction as a transfer of a financial asset if, and only if, all of the following three conditions are met:

(a) The Bank has no obligation to pay amounts to the eventual recipients unless it collects equivalent amounts from the original asset. Short-term advances by the Bank with the right of full recovery of the amount lent plus accrued interest at market rates do not violate this condition.

(b) The Bank is prohibited by the terms of the transfer contract from selling or pledging the original asset other than as security to the eventual recipients for the obligation to pay them cash flows.

(c) The Bank has an obligation to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Bank is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents during the short settlement period from the collection date to the date of required remittance to the eventual recipients, and interest earned on such investments is passed to the eventual recipients.

c) Subsequent measurement

After initial recognition, the bank will measure a financial asset in accordance at:

(a) amortised cost;
(b) fair value through other comprehensive income; or
(c) fair value through profit or loss.

The Bank applies the IFRS impairment requirements to financial assets that are measured at amortised cost and to financial assets that are measured at fair value through other comprehensive income.

A financial asset is measured at amortised cost if both of the following conditions are met: (a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met: (a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income.

Financial assets that are held within a business model whose objective is to hold assets in order to collect contractual cash flows are measured at amortised cost and they are managed to realise cash flows by collecting contractual payments over the life of the instrument. That is, the Bank manages the assets held within the portfolio to collect those particular contractual cash flows (instead of managing the overall return on the portfolio by both holding and selling assets). In determining whether cash flows are going to be realised by collecting the financial assets' contractual cash flows, it is necessary to consider the frequency, value and timing of sales in prior periods, the reasons for those sales and expectations about future sales activity. However sales in themselves do not determine the business model and therefore cannot be considered in isolation. Instead, information about past sales and expectations about future sales provide evidence related to how the Bank's stated objective for managing the financial assets is achieved and, specifically, how cash flows are realised.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Financial assets and liabilities (continued)

2.7.1 Financial assets (continued)

c) Subsequent measurement (continued)

The Bank holds financial assets in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. In this type of business model, the Bank made a decision that both collecting contractual cash flows and selling financial assets are integral to achieving the objective of the business model. There are various objectives that may be consistent with this type of business model. For example, the objective of the business model may be to manage everyday liquidity needs, to maintain a particular interest yield profile or to match the duration of the financial assets to the duration of the liabilities that those assets are funding. To achieve such an objective, the Bank will both collect contractual cash flows and sell financial assets.

Compared to a business model whose objective is to hold financial assets to collect contractual cash flows, this business model will typically involve greater frequency and value of sales. This is because selling financial assets is integral to achieving the business model's objective instead of being only incidental to it. However, there is no threshold for the frequency or value of sales that must occur in this business model because both collecting contractual cash flows and selling financial assets are integral to achieving its objective. Assets held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets are measured at fair value through other comprehensive income.

A gain or loss on a financial asset measured at fair value through other comprehensive income is recognised in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses, until the financial asset is derecognised or reclassified. When the financial asset is derecognised the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. If the financial asset is reclassified out of the fair value through other comprehensive income measurement category, the Bank will account for the cumulative gain or loss that was previously recognised in other comprehensive income. Interest calculated using the effective interest method is recognised in profit or loss.

If a financial instrument that was previously recognised as a financial asset is measured at fair value through profit or loss and its fair value decreases below zero, it is a financial liability.

All investments in equity instruments and contracts on those instruments must be measured at fair value. However, in limited circumstances, cost may be an appropriate estimate of fair value. That may be the case if insufficient more recent information is available to measure fair value, or if there is a wide range of possible fair value measurements and cost represents the best estimate of fair value within that range.

Financial assets are measured at fair value through profit or loss if they are not held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. One business model that results in measurement at fair value through profit or loss is one in which the Bank manages the financial assets with the objective of realising cash flows through the sale of the assets. The Bank makes decisions based on the assets' fair values and manages the assets to realise those fair values. In this case, the Bank's objective will typically result in active buying and selling.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Financial assets and liabilities (continued)

2.7.1 Financial assets (continued)

d) Reclassification

When the Bank changes its business model for managing financial assets it shall reclassify all affected financial assets. If the Bank reclassifies financial assets, the reclassification is applied prospectively from the reclassification date.

When the entity reclassifies a financial asset out of the fair value through other comprehensive income measurement category and into the amortised cost measurement category, the financial asset is reclassified at its fair value at the reclassification date. However, the cumulative gain or loss previously recognised in other comprehensive income is removed from equity and adjusted against the fair value of the financial asset at the reclassification date. As a result, the financial asset is measured at the reclassification date as if it had always been measured at amortised cost. This adjustment affects other comprehensive income but does not affect profit or loss and therefore is not a reclassification adjustment. The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification.

Both the amortised cost measurement category and the fair value through other comprehensive income measurement category require that the effective interest rate is determined at initial recognition.
Both of those measurement categories also require that the impairment requirements are applied in the same way. Consequently, when the Bank reclassifies a financial asset between the amortised cost measurement category and the fair value through other comprehensive income measurement category:

(a) the recognition of interest revenue will not change and therefore the Bank continues to use the same effective interest rate.

(b) the measurement of expected credit losses will not change because both measurement categories apply the same impairment approach. However if a financial asset is reclassified out of the fair value through other comprehensive income measurement category and into the amortised cost measurement category, a loss allowance would be recognised as an adjustment to the gross carrying amount of the financial asset from the reclassification date. If a financial asset is reclassified out of the amortised cost measurement category and into the fair value through other comprehensive income measurement category, the loss allowance would be derecognised (and thus would no longer be recognised as an adjustment to the gross carrying amount) but instead would be recognised as an accumulated impairment amount (of an equal amount) in other comprehensive income and would be disclosed from the reclassification date.

When the Bank reclassifies a financial asset out of the fair value through profit or loss measurement category, the effective interest rate is determined on the basis of the fair value of the asset at the reclassification date.

If the Bank reclassifies a financial asset out of the amortised cost measurement category and into the fair value through profit or loss measurement category, its fair value is measured at the reclassification date. Any gain or loss arising from a difference between the previous amortised cost of the financial asset and fair value is recognised in profit or loss.
If the Bank reclassifies a financial asset out of the fair value through profit or loss measurement category and into the amortised cost measurement category, its fair value at the reclassification date becomes its new gross carrying amount.

If the Bank reclassifies a financial asset out of the amortised cost measurement category and into the fair value through other comprehensive income measurement category, its fair value is measured at the reclassification date. Any gain or loss arising from a difference between the previous amortised cost of the financial asset and fair value is recognised in other comprehensive income. The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Financial assets and liabilities (continued)

2.7.1 Financial assets (continued)

d) Reclassification (continued)

If the Bank reclassifies a financial asset out of the fair value through other comprehensive income measurement category and into the amortised cost measurement category, the financial asset is reclassified at its fair value at the reclassification date. However, the cumulative gain or loss previously recognised in other comprehensive income is removed from equity and adjusted against the fair value of the financial asset at the reclassification date. As a result, the financial asset is measured at the reclassification date as if it had always been measured at amortised cost. This adjustment affects other comprehensive income but does not affect profit or loss and therefore is not a reclassification adjustment.

The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification.

If the Bank reclassifies a financial asset out of the fair value through profit or loss measurement category and into the fair value through other comprehensive income measurement category, the financial asset continues to be measured at fair value.

If the Bank reclassifies a financial asset out of the fair value through other comprehensive income measurement category and into the fair value through profit or loss measurement category, the financial asset continues to be measured at fair value. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment at the reclassification date.

e) Fair value measurement principles

The fair values of quoted investments in active markets are based on current bid prices in case of bonds and mid prices in case of derivatives. If the market for a financial asset is not active (and for unlisted securities and derivatives), the Bank establishes fair value by using valuation techniques and internally developed models.

2.7.2 Financial liabilities

The Bank classifies all financial liabilities as subsequently measured at amortised cost, except for:

(a) financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, shall be subsequently measured at fair value.

(b) financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.

(c) financial guarantee contracts. After initial recognition, such a contract will be subsequently measured at the higher of: (i) the amount of the loss allowance and (ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognised

(d) commitments to provide a loan at a below-market interest rate. Such a commitment will be subsequently measured at the higher of: (i) the amount of the loss allowance and (ii) the amount initially recognised, when appropriate, the cumulative amount of income recognised contingent consideration recognised by an acquirer in a business combination. Such contingent consideration shall subsequently be measured at fair value with changes recognised in profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Financial assets and liabilities (continued)

2.7.2 Financial liabilities (continued)

Derecognition of financial liabilities

The Bank derecognizes a financial liability (or part thereof) when its contractual obligations are discharged or cancelled or expires.

In cases that a financial liability is exchanged with another one with substantially different terms, the exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new one. The same applies in cases of a substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor).
In cases of derecognition, the difference between the carrying amount of the financial liability (or part of the financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

2.8 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

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

2.9 Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. The methods of estimating the fair values are represented by market approach. Derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The Bank has in portfolio the following types of derivatives: currency swaps and forward, interest rate swaps and currency options.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss.

These embedded derivatives are measured at fair value with changes in fair value recognised in the profit and loss. The Bank held no embedded derivatives as at the reporting date.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Bank did not designate any derivative transaction as a hedging instrument during its existence and, consequently, did not use hedge accounting. The fair value gain or loss has been recognised by the Bank through profit or loss in the line "Gains less (losses) from derivatives".

The Bank offers to its customers a product - Gold account (e-gold) – allowing customers to buy gold without actually taking physical delivery, but having exposure to price movements. For the Bank there is no open position, all deals are immediately matched with deals of opposite sign concluded with the bank which is the gold supplier. The net gain from this product is presented within Gains less (losses) from derivatives (Note 28) - Gold accounts (e-gold) line.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Interest income and expense

Interest income and expense is recognised on an accrual basis in the income statement for all interest bearing balance sheet items according to the effective interest rate method.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees that are an integral part of the effective interest rate of a financial instrument are treated as an adjustment to the effective interest rate, unless the financial instrument is measured at fair value, with the change in fair value being recognised in profit or loss. In those cases, the fees are recognised as revenue or expense when the instrument is initially recognised.

Fees that are an integral part of the effective interest rate of a financial instrument include:

(a) origination fees received by the Bank relating to the creation or acquisition of a financial asset. Such fees may include compensation for activities such as evaluating the borrower's financial condition, evaluating and recording guarantees, collateral and other security arrangements, negotiating the terms of the instrument, preparing and processing documents and closing the transaction. These fees are an integral part of generating an involvement with the resulting financial instrument.

(b) commitment fees received by the Bank to originate a loan when it is probable that the Bank will enter into a specific lending arrangement. These fees are regarded as compensation for an ongoing involvement with the acquisition of a financial instrument. If the commitment expires without the entity making the loan, the fee is recognised as revenue on expiry.

(c) origination fees paid on issuing financial liabilities measured at amortised cost. These fees are an integral part of generating an involvement with a financial liability.

Transaction costs include fees and commission paid to agents (including employees acting as selling agents), advisers, brokers and dealers, levies by regulatory agencies and security exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

For a financial asset that is not purchased or originated credit-impaired, the Bank calculates interest revenue as follows:

-Gross method — If the financial asset has not become credit-impaired since initial recognition, the Bank applies the effective interest rate method to the gross carrying amount. The gross carrying amount represents the amortised cost of a financial asset, before adjusting for any loss allowance.

-Net method — If the financial asset has subsequently become credit-impaired, the Bank applies the effective interest rate to the amortized cost balance, which is the gross carrying amount adjusted for any loss allowance.

In some cases a financial asset is considered credit-impaired at initial recognition because the credit risk is very high, and in the case of a purchase it is acquired at a deep discount. The Bank is required to include the initial expected credit losses in the estimated cash flows when calculating the credit-adjusted effective interest rate for financial assets that are considered to be purchased or originated credit impaired at initial recognition.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Fee and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan origination fees for loans which are probable of being drawn down, are deferred and recognised as adjustments to the effective yield on the loan.

Fee and commission income consists mainly of fees and commissions received for the transfers of money for customers, trading of securities and foreign exchange, issuance of guarantees and letters of credit and fees charged for current accounts.

The Bank's fee and commission income also comprises commission charged to insurance companies for insurance intermediation. The Bank's fee and commission income also comprises fees for payments transactions and card transactions. Revenue from such services is recognised in the period the services are provided and revenue earned.

Certain loan agreements concluded by the Bank were transferred under funded participation and assignment agreements to Piraeus Bank S.A. - London Branch at a different moment, after concluding the loan agreement. All risks and benefits related to these loans were transferred and the loans were derecognised in the balance sheet. After the transfer, the Bank acts as an agent of Piraeus Bank London Branch servicing the transferred loans and repossessed collaterals. For the services provided the Bank receives commissions as management fee and performance based success fees. The remuneration structure was amended at the end of June 2018, when the Bank's ownership changed.
Starting July 2018, the Bank offers similar administration services to another Greek lender (Eurobank) for loans originated by its former subsidiary (Bancpost S.A).

2.12 Dividends

Dividends on ordinary shares are recognised in the other comprehensive income in the period in which they are approved by the Annual General Meeting of shareholders.

Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the financial statements are authorized for issue, are disclosed in the subsequent events note. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations.

2.13 Sale and repurchase agreements

Securities sold under such sale and repurchase agreements are not derecognised. The securities are reclassified as repurchase receivables in the statement of financial position if the Bank (the transferee) has the right by contract or custom to sell or re-pledge the securities. The corresponding liability is presented within amounts due to other banks or other borrowed funds.

Securities purchased under agreements to resell ("reverse repo agreements"), which effectively provide a lender's return to the Bank, are recorded as due from other banks or loans and advances to customers, as appropriate. The difference between the sale and repurchase price, adjusted by interest and dividend income collected by the counterparty, is treated as interest income and accrued over the life of repo agreements using the effective interest method.

2.14 Impairment of financial assets

Credit impairment losses on loans and advances to customers, undrawn loan commitments, letters of credit and letters of guarantee

The Bank, at each reporting date, recognizes a loss allowance for expected credit losses on loans and advances to customers not measured at fair value through profit or loss as well as for off-balance sheet exposures (letters of guarantee, letters of credit, and undrawn loan commitments).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.14 Impairment of financial assets (continued)

The loss allowance for loans and off-balance sheet exposures is based on expected credit losses related to the probability of default within the next twelve months, unless there has been a significant increase in credit risk from the date of initial recognition in which case expected credit losses are recognized over the life of the instrument.

If the financial asset falls under the definition of purchased or originated credit impaired (POCI) financial assets, a loss allowance equal to the lifetime expected credit losses is recognized.

a) Default definition

The Bank has adopted as default definition non-performing exposures (NPE), as defined in the EC Regulation 2015/227 of 9 January 2015 amending Implementing Regulation (EU) No. 680/2014 of the Commission with subsequent modifications, the definition of default used for accounting purposes being harmonized with the one used for regulatory purposes.

b) Classification of exposures into stages based on credit risk (Staging)

Financial assets are classified in Stage 1, Stage 2 or Stage 3 according to their absolute or relative credit quality with respect to the initial payments. Thus:

- Stage 1: includes (i) newly initiated or acquired credit exposures; (ii) exposures for which credit risk has not been significantly impaired since initial recognition;
- Stage 2: includes credit exposures which, although performing, have registered a significant impairment of credit risk since initial recognition;
- Stage 3: includes impaired credit exposures.

As an exception to the above, for purchased or originated credit impaired (POCI) exposures, lifetime expected credit losses are always recognized. Purchased or originated credit impaired exposures include:

- Exposures that at the time of acquisition meet the criteria to be classified as non- performing exposures.
- Exposures for which there has been a change in repayment terms, either due to financial difficulty or not, which resulted in derecognition and recognition of a new impaired asset (POCI).

For Stage 1 exposures, impairment is equal to the expected loss calculated over a timeline of up to one year. For Stage 2 or 3 exposures, impairment is equal to the expected loss calculated over a timeline corresponding to the lifetime of the exposure.

c) Significant increase in credit risk

In determining significant increase in credit risk of an exposure since initial recognition and the recognition of lifetime expected credit losses instead of 12 months expected credit losses, the Bank assesses, at each reporting date, the risk of default compared to the risk of default at initial recognition for all its performing exposures including those with no delinquencies.

The assessment of the significant increase in credit risk is based on the following:

- Quantitative criteria: refers to comparison of the probability of default (PD) between the reporting date and the date of initial recognition.
- Qualitative criteria: refers to the qualitative information used which is not necessarily reflected in the probability of default, such as the classification of an exposure as forborne performing (FPL, according to EBA). Additional qualitative indicators, both for corporate and retail portfolios are also reflected through the Early Warning indicators where depending on the underlying assessment, an exposure can be considered to have a significant increase in credit risk or not.
- Backstop Indicators: in addition to the above, and in order to capture cases for which there are no triggers reflecting the increase in credit risk, based on qualitative and quantitative indicators, the 30 days past due indicator is used as a backstop.

(all amounts in RON thousand unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.14 Impairment of financial assets (continued)

d) Calculation of expected credit loss

Calculation of the expected credit loss is made in accordance with the following principles:

- The expected loss on a one-year horizon (financial assets in Stage 1) is calculated based on a portfolio approach, multiplying the exposure by the marginal conditional default probability and the estimated loss given default for a period of one year.

- The expected loss for the residual life of the asset (financial assets in Stage 2) is calculated based on a portfolio approach, multiplying the exposure by the marginal conditional default probability and the estimated loss given default for the residual life of the asset.

The expected loss on impaired financial assets is determined based on the following approach:

- individual for loans with significant exposure, by deducting from the exposure the present value of cash flows expected to be derived from collateral and the present value of cash flows expected to be recovered by the Bank from the client's operational activity based on the scenarios analysed by the Bank in terms of probability of a credit loss;
- based on a portfolio approach for the rest of the impaired loans, multiplying the exposure by the loss given default.

For portfolio evaluation, the use of relevant segmentation and risk factors allows the calculation of a probability of default (PD), which differs by segmentation level identified, and the expected credit loss (ECL).

The Bank's scoring system for individuals and the corporate rating system are the basis for portfolio segmentation.

In order to calculate the ECL, lifetime PDs are used in the calculation model, in case of loans classified in Stage 2 and 12-month PDs (or shorter if the remaining credit lifetime is lower), with the following characteristics:

- the PD is estimated throughout the lifetime of the asset;
- the PD is "Point in Time" (PiT);
- the PD is conditional, defined as the probability for an exposure/customer to become in default at "t+1", given that it has not become in default until "t";
- the PD includes expectations of future macroeconomic conditions, incorporating forward looking information.

To predict the PD, the following macroeconomic variables are used in the calculation model: real GDP growth, unemployment, EUR / RON exchange rate, EUR / CHF exchange rate and ROBOR evolution.

The projected PD curve is determined by using 3 macroeconomic scenarios, each of which has an associated probability of occurrence, while the final macroeconomic forecast introduced in the model is a weighted average thereof.

Also, individualised impairment is evaluated on the basis of multiple scenarios and includes forward looking information. Below are presented the macroeconomic indicators considered and their overall projected level:

Year	GDP	CPI	Unemployment Rate	EUR/RON	EUR/CHF	ROBOR 3M
2019	2.45	2.98	5.10	4.6912	1.17	2.82
2020	3.59	3.01	5.20	4.6990	1.21	2.76
2021	3.46	2.89	5.30	4.7214	1.21	2.74
2022	3.44	2.89	5.30	4.7431	1.19	2.84

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.14 Impairment of financial assets (continued)

d) Calculation of expected credit loss (continued)

For credit commitments, the bank considers the changes in the risk of default that arise in the credit associated to the commitment.

For credit commitments not drawn, the loss means the present value of the difference between:

(a) the contractual cash flows due to the Bank if the commitment holder were to draw the credit/ loan; and
(b) the cash flows that the Bank expects to collect if the loan is drawn.

LGD (expected loss given default) is the percentage of expected loss and, therefore, the expected recovery rate at the time of occurrence of the event. The Bank distinguishes in terms of LGD computation secured from unsecured exposures.

LGD for unsecured exposures summarizes all cash flows collected from the customer after default, while for secured exposure the existing collateral adjusted with the Bank observed realisation value is considered.

The LGD include costs and amounts recovered during the recovery cycle, including those due to collateral and reflects the time value of money, calculated as the present value of recoveries.

The Bank's estimate of expected credit loss for credit commitments must be in line with its expectations for the use of the credit commitment, which means that the Bank will consider the portion of the commitment expected to be drawn within 12 months from the reporting date, when estimated for a 12-month ECL, and the portion of the commitment that is expected to be drawn over the expected lifetime of the credit commitment, when estimated for an ECL lifetime.

In order to calculate the expected credit loss for credit commitments, the Bank uses the CCF-related regulations mentioned in Regulation 575/2013, examining the applicability of the criteria on its portfolio of financial assets measured at amortized cost.

e) Presentation of expected credit losses in financial statements

Expected credit loss is recognized as follows:

- Financial assets measured at amortised cost: loss allowance is presented as a deduction from the gross carrying amount of the assets.

- Financial assets classified at fair value through other comprehensive income: through profit or loss against reserves accounts.

f) Credit impairment losses on due from banks and bonds

The Bank, at each reporting date, recognizes a loss allowance for expected credit losses on due from banks and bonds not measured at fair value through profit or loss.

The loss allowance is based on expected credit losses related to the probability of default within the next twelve months, unless there has been a significant increase in credit risk from the date of initial recognition in which case expected credit losses are recognized over the life of the instrument. In addition, if the financial asset falls under the definition of purchased or originated credit impaired (POCI) financial assets, a loss allowance equal to the lifetime expected credit losses is recognized.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 Impairment of financial assets (continued)

f) Credit impairment losses on due from banks and bonds (continued)

Written-off loans

The primary requirement for a credit to be written-off is when the likely prospects of generating future cash flows from the loans have disappeared and therefore total related loan outstanding exposure was fully covered with provisions for impairment calculated in accordance with IFRS.

The Bank continues however the legal actions against the debtors in order to collect the outstanding loans.

Subsequent recoveries of amounts previously written off are recognised in the period in which they occur and decrease the amount of the impairment charge for credit losses in profit and loss.

2.15 Repossessed collateral

Repossessed collateral represents financial and non-financial assets acquired by the Bank in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in property, plant and equipment, other financial assets or inventories within other assets depending on their nature and the Bank's intention in respect of recovery of these assets and are subsequently re-measured and accounted for in accordance with the accounting policies for these categories of assets.

Repossessed assets are classified in the statement of financial position as 'non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction, including loss of control of a subsidiary holding the assets, within twelve months after the end of the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Bank's management approved and initiated an active program to locate a buyer; (c) the assets are actively marketed for sale at a reasonable price; (d) the sale is expected within one year and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Non-current assets or disposal groups classified as held for sale in the current period's statement of financial position are not reclassified or re-presented in the comparative statement of financial position to reflect the classification at the end of the current period.

If the Bank has classified the repossessed collateral as held for sale but the IFRS 5 criteria above are no longer met, the Bank ceases to classify the asset as held for sale.

The proceeds from sale of repossessed collaterals are presented in statement of profit and loss in line Sales of repossessed assets from foreclosed loans contracts. The derecognition of the assets once the sales are completed together with any provision movement is presented in cost of sales of repossessed assets from foreclosed loans contracts.

Repossessed collaterals are measured at the lower of their carrying amount and fair value less costs to sell.

2.16 Gold

The Bank trades physical gold with its customers. The balance of gold acquired for further sale are presented in inventory within other non-financial assets. The Bank applied the weighted average cost method to measure its gold stock. Net gains/losses from the transaction are presented in fee and commission income in profit or loss (Note 28).

2.17 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance which is expected to be used for a period longer than one year and from which economic benefits will flow to the entity.

Costs associated with developing or maintaining computer software programs are recognized as an expense when incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Bank, and that will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Direct costs include software development employee costs and an appropriate portion of relevant overheads.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.17 Intangible assets (continued)

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives.

Subsequent expenditure on capitalized intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is charged to the income statement on a straight-line basis over the estimated useful life of the software, from the date that it is available for use. The typical useful life of the software is 3-5 years.

2.18 Premises and equipment

Cost

Premises and equipment are stated at cost, restated to the equivalent purchasing power of the Romanian Leu at 31 December 2003 for assets acquired prior to 1 January 2004, less accumulated depreciation and provision for impairment, where required. Cost includes borrowing costs incurred on specific or general funds borrowed to finance construction of qualifying assets.

Costs of repairs and day-to-day maintenance are expensed when incurred. Cost of replacing major parts or components of premises and equipment items are capitalised and the replaced part is retired.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

Depreciation

Land is not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate their cost less their residual values over their estimated useful lives.

	Useful lives in years
Leasehold improvements over the term of the underlying lease	5
Buildings	50
Office equipment, fixtures and fittings	3 - 20
Vehicles	5

2.19 Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the supply of services or for administrative purposes.

Investment property is initially recognised at cost, including transaction costs, and subsequently re-measured at fair value updated to reflect market conditions at the end of the reporting period. Fair value of investment property is the price at which the property could be sold in an orderly transaction in the principal market. An orderly transaction is not a forced transaction or a distress sale. The best evidence of fair value is given by current prices in an active market for similar property in the same location and condition. In the absence of current prices in an active market, the Bank considers information from a variety of sources, including:

(a) current prices in an active market for properties of different nature, condition or location, adjusted to reflect those differences;
(b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices;

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Investment property (continued)

(c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows;

The fair value of the Bank's investment property is determined based on reports of independent appraisers, who hold a recognized and relevant professional qualification, and who have had recent experience of the valuation of property in similar locations and of similar category; and
Earned rental incomes are recorded in profit or loss for the year within other operating income. Gains and losses resulting from changes in the fair value of investment property are recorded in profit or loss for the year and presented separately.

2.20 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. The Bank didn't hold such assets in the reporting period. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.21 Finance lease liabilities

Where the Bank is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Bank, the assets leased are capitalised in premises and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in borrowings.

The interest cost is charged to profit or loss over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term if the Bank is not reasonably certain that it will obtain ownership by the end of the lease term.

2.22 Operating Leases

The leases entered into by the Bank are primarily operating leases. The total payments made under operating leases are charged to the profit and loss on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

2.23 Finance lease receivables

Where the Bank is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable and carried at the present value of the future lease payments. Finance lease receivables are initially recognised at commencement (when the lease term begins) using a discount rate determined at inception (the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Finance lease receivables (continued)

The difference between the gross receivable and the present value represents unearned finance income. This income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. Finance income from leases is recorded within "interest income" in profit or loss for the year.

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of finance lease receivables. The Bank uses the same principal criteria to determine whether there is objective evidence that an impairment loss has occurred, as for loans carried at amortised cost.

Impairment losses are recognised through an allowance account to write down the receivables' net carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred), discounted at the interest rates implicit in the finance leases. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

2.24 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition: cash; non-restricted balances with central banks, including minimum mandatory reserves; treasury bills and other eligible bills; due from other banks and short-term government securities.

Amounts subject to a potential significant change in value due to high credit risk or other reasons are not cash and cash equivalents unless whole or significant part of the balance have been used in subsequent period without any restrictions or change in the value.

2.25 Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.26 Financial guarantees contracts

Financial guarantee contracts are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument.

Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the bank's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the profit and loss the fee income earned on a straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date.

These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of management.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.27 Performance guarantees

Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Such contracts transfer non-financial performance risk in addition to credit risk. Performance guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the contract. At the end of each reporting period, the performance guarantee contracts are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the contract at the end of each reporting period, discounted to present value. Where the Bank has the contractual right to revert to its customer for recovering amounts paid to settle the performance guarantee contracts, such amounts will be recognised as loans and receivables upon transfer of the loss compensation to the guarantee's beneficiary.

2.28 Employee benefits

(a) Short-term benefits

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

(b) Defined contribution plan

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

(c) Other benefits

On the basis of internal policies, the Bank has an obligation to pay to retiring employees a benefit equivalent of two care allowances as at retirement date. The debt related to this benefit scheme is calculated on an actuarial basis, considering the salary estimated at the retirement date and the number of activity years of each individual employee. The bank's net obligation in respect of the retirement benefit is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value.

Termination benefits are recognised as an expense when the bank is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. If benefits are payable more than 12 months after the reporting date, than they are discounted to their present value.

The Bank does not have any obligation to provide subsequent services to the former or current employees.

2.29 Levies / Taxes

The retail deposits and certain deposits of legal entities are guaranteed up to EUR 100,000 equivalent by the Bank Deposit Guarantee Fund (the "FGDB") according to the regulations in force (Law 311/2015).

Romanian banks are obliged to pay an annual contribution to the Deposit Guarantee Fund, in order to guarantee the clients' deposits in case of the credit institution's insolvency, as well as an annual contribution to the Resolution Fund.

The Bank applies IFRIC 21"Taxes" recognizing in full these contributions as expenses at the time the generating events occur.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.30 Income taxes

In recording both the current and deferred income tax charge for the year ended, the Bank has computed the annual income tax charge based on Romanian profits tax legislation enforced at the balance sheet date. The tax rate used to calculate the current and deferred tax position at 31 December 2018 is 16% (31 December 2017: 16%).

(a) Current income tax

The Bank records profit tax upon net income from the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and Order 27/2010 issued by the National Bank of Romania and profit tax legislation. Romanian profits tax legislation is based on a fiscal year ending on 31 December.

(b) Deferred income tax

Differences between financial reporting under International Financial Reporting Standards and Romanian fiscal regulations give rise to differences between the carrying value of certain assets and liabilities and income and expenses for financial reporting and income tax purposes.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

2.31 Comparatives

Comparatives have been amended, where applicable, in accordance with IFRS presentations of the current year. The amendments refer to non-significant amounts at the level of the financial statements taken as a whole.

3 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

3 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

The most significant use of judgments and estimates are as follows:

a) 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 various 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 valuation of financial instruments is described in more detail in Note 34.

b) Expected credit losses on financial assets at amortised cost and FVOCI

The measurement of impairment losses both under IFRS 9 and IAS 39 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Bank reviews its loan portfolio to assess impairment on a monthly basis. In determining whether an impairment loss should be recorded in the profit and loss, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio.

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 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).

In IFRS 9, the Bank's expected credit loss model (ECL) relies on several underlying assumptions regarding the choice of variable inputs and their interdependencies, which affect the level of allowances:

- The criteria defined (both in relative and absolute terms) for the assessment of significant increase in credit risk since initial recognition and consequently the computation of allowances based on life time expected credit loss (LTECL)
- The grouping of financial assets when their ECL is measured on a collective basis
- The development of ECL model, including the various formulas and the choice of inputs
- The macroeconomic scenarios and their probability weightings based on which ECL is derived

The Bank is closely monitoring any relevant developments to update the estimate of the effect on its financial statements in accordance with its accounting policies.

At 31 December 2018 and 1st of January 2018, if the PD and LGD will shift for both performing and non-performing loans, the provisions will change according with the following table:

Sensitivity analysis
All amounts in RON thousands.

On balance sheet exposures	**31 December 2018 Effect on profit or loss (+/-5%)**	**1 January 2018 Effect on profit or loss (+/-5%)**
Credit cards and Overdrafts	+245/-244	+162/-346
Consumer Loan	+856/-1,529	+522/-1,699
Equity	+1,496/-1,425	+2,011/+99
Mortgage	+586/-449	+826/-192
Micro and SME	+1,224/-955	+26/-2,200
Corporate	+1,094/-967	+688/-560
TOTAL	**+5,501/-5,569**	**+4,234/-4,899**

3 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

c) Risk provisions for potential claims derived from loan contracts

The Bank records provisions for potential liabilities derived from past commercial practice (see note 21).

The Bank developed a methodology to estimate the required provision for such potential liabilities making assumptions based on more recent history. The methodology also involves making assumptions about the number of future legal cases to be brought against the Bank and the likely outcome of current and possible future cases. These assumptions are inherently difficult to estimate, and the estimation uncertainty was higher. Details regarding risk provisions for potential claims derived from past commercial practices are presented in Note 21.

d) De-recognition of financial assets

The Bank derecognises an asset if it substantially transfers all the risks and rewards of ownership of the asset. The transfer of risks and rewards is evaluated taking into consideration the Bank's exposure, before and after the transfer, the variability in amount and timing of the expected future cash flows. The Bank continues to recognise the asset if it retains substantially all the risks and rewards of ownership of the asset. The de-recognition criteria implies substantial changes to the transferor's exposure towards the risks and rewards of ownership.

The Bank determines whether it has retained control of the asset. Control is defined as the transferee's ability to sell the asset. The transferee has this ability if it can unilaterally sell the asset in its entirety to an unrelated third party without needing to impose further restrictions on the transfer. A transferee has the ability to sell the asset if it is traded in an active market because, should it need to return the assets to the transferor, the transferee could purchase it in the market.

The asset is derecognised if the Bank has lost control over it. The Bank continues to recognise the asset to the extent of its continuing involvement and its retained control.

Specifically, the Bank transferred to Piraeus Bank S.A. - London Branch loans on the basis of the funded participation or assignment agreements, receiving cash in exchange. Management considers that all the risks and rewards related to those loans are substantially transferred to Piraeus Bank S.A. - London Branch and hence de-recognition criteria are met.

Specific judgements have been made over the commission income received by the Bank from administration of transferred loans, disclosed in Note 27, which were considered by management to be both an adequate and expected compensation for the servicing of the transferred portfolio performed by the Bank as it covers the costs inherent to the servicing activities performed such as collection, accounting, monitoring, and other administrative tasks and ensure an appropriate return for the bank.

The sufficiency of the commissions received by the Bank from administration of the loans transferred to Piraeus Bank S.A. - London Branch for periods before the change in the Bank's ownership was validated through the new commercial terms agreed in the context of control changing, as well as by the commissions received starting 2018 from the administration of the loan portfolio of another Greek lender (i.e. Eurobank).

(all amounts in RON thousand unless otherwise stated)

4 CASH AND CASH EQUIVALENTS

	31 December 2018	31 December 2017
Cash on hand	190,000	189,692
Cash and balances with Central Banks (Note 5)	632,033	821,066
Due from other banks (Note 7)	200,703	458,024
Less collateral deposits (*)	(52,789)	(42,073)
Total Cash and Cash equivalents	**969,947**	**1,426,709**
Allowance for Impairment	(64)	-
Total Cash and Cash equivalents	**969,883**	**1,426,709**

(*) The placements in amount of RON 52,789 thousand (31 December 2017: RON 42,073 thousand) represent collateral deposits for swap transactions and cards activity.

The qualitative analysis regarding the placements with banks was based on the credit ratings issued by Moody's, if available. As concerns the Bank's placements with counterparties that are not rated the sovereign rating was used.

At 31 December 2018, the credit quality of the placements with banks based on Moody's ratings may be summarised as follows:

2018	Cash balances, with the NBR, including mandatory reserves	Correspondent accounts and overnight placements	Placements with other banks	Total
Aaa	-	-	50,839	50,839
Aa3	-	3,409	1,950	5,539
A1	-	14,830	-	14,830
A2	-	100	-	100
A3	-	110,014	-	110,114
Baa2	-	2,364	-	2,364
Baa3 - National Bank of Romania	631,970	-	-	631,970
Baa3 - Other banks	-	10,611	-	10,611
B2	-	948	-	948
Caa2	-	5,509	-	5,509
Caa3	-	128	-	128
Total cash and cash equivalents, excluding cash on hand	**631,970**	**147,913**	**52,789**	**832,672**

(all amounts in RON thousand unless otherwise stated)

4. CASH AND CASH EQUIVALENTS (CONTINUED)

At 31 December 2017, the credit quality of the placements with banks based on Moody's ratings may be summarised as follows:

2017	Cash balances, with the NBR, including mandatory reserves	Correspondent accounts and overnight placements	Placements with other banks	Total
Neither past due nor impaired				
Aaa	-	-	40,238	40,238
Aa3	-	2,686	1,835	4,521
A1	-	488	-	488
A2	-	9	-	9
Baa2	-	189,084	-	189,084
Baa3 - National Bank of Romania	821,066	-	-	821,066
Baa3 - Other Banks	-	1,582	-	1,582
B2	-	956	-	956
Caa3	-	221,147	-	221,147
Total cash and cash equivalents, excluding cash on hand	**821,065**	**415,952**	**42,073**	**1,279,090**

5 CASH AND BALANCES WITH CENTRAL BANK

	31 December 2018	31 December 2017
Cash	190,000	189,692
Current accounts, out of which:	513,209	525,526
- in RON	350,801	374,682
- in Foreign currency	162,408	150,844
Overnight deposits	118,760	295,540
Total	**821,969**	**1,010,758**

Current accounts are required to satisfy the mandatory minimum reserve requirements imposed by the National Bank of Romania. This reserve represents a minimum average deposit with a holding period of one month, computed based on resources held in the previous month.

As at 31 December 2018, the minimum reserve requirement held with the National Bank of Romania was set at 8% for funds denominated in RON and EUR (2017: 8% for funds denominated in RON and EUR). The minimum reserve balance may fluctuate on a daily basis. The minimum required reserve can be used by the Bank for its daily activities as long as the average monthly balance is maintained within the required limits.
All these balances were included in cash and cash equivalents (Note 4).

The interest paid by the National Bank of Romania for the reserves held by the banks was 0.09 - 0.20% per year for the reserves in RON (2017: 0.10-0.09%) and 0.02% per year for reserves denominated in EUR (2017: 0.02%). The interest rate for overnight deposits with National Bank of Romania was at -0.65% during 2018 (2017: -0.65%).

(all amounts in RON thousand unless otherwise stated)

6 OTHER FINANCIAL ASSETS AND LIBILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2018	31 December 2017
Gold Accounts (E-Gold)	2,359	2,269
Total other financial assets/liabilities at fair value through profit or loss	**2,359**	**2,269**

At 31 December 2018 and 31 December 2017, in other financial assets at fair value through profit or loss, respectively financial liabilities at fair value through profit or loss, the gold account was included due to the existence of the derivative component, the settlement of the transaction depending on the market price of the gold.

7 DUE FROM OTHER BANKS

	31 December 2018	31 December 2017
Current accounts	147,930	415,951
Placements with banks with original maturity more than three months	52,789	42,073
Less credit loss allowance	(16)	-
Total	**200,703**	**458,024**

During 2018, the interest rates for EUR placements ranged from -1.0% to 1.13%, while for RON they fluctuated from 1% to 3%. With respect to the USD placements the interest rate ranged between a low of 0.00% and a high of 1.70%.
Current accounts, sight deposits and term deposits included in Due from other banks with an original maturity lower than 3 months were included in cash and cash equivalents (Note 4).

The credit quality of the balances is presented in Note 4.

31 December 2018	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**POCI**	**Total**
Current accounts	147,930	-	-	-	147,930
Placements with banks of more than three months	52,789	-	-	-	52,789
Amounts in course of settlement	-	-	-	-	-
Less credit loss allowance	(16)	-	-	-	(16)
Total Due from other banks	**200,703**	**-**	**-**	**-**	**200,703**

(all amounts in RON thousand unless otherwise stated)

8 LOANS AND ADVANCES TO CUSTOMERS

	31 December 2018	31 December 2017
Companies	2,242,857	1,975,044
Individuals, out of which:	1,589,072	1,716,308
Individuals – consumer loans	425,530	438,396
Individuals – personal needs (secured)	382,155	504,180
Mortgage loans	718,981	702,746
Overdraft	36,883	43,329
Credit Cards	25,523	26,093
Individuals – other	-	1,564
Total gross value	**3,831,929**	**3,691,352**
Less provision for impairment	*(160,653)*	*(240,953)*
Total	**3,671,276**	**3,450,399**

Analysis by sector

	31 December 2018	% of total	31 December 2017	% of total
Companies				
Trade	537,606	14%	494,490	13%
Tourism	62,815	2%	82,903	2%
Manufacturing	328,417	9%	361,475	10%
Construction and Real Estate	553,773	14%	477,260	13%
Transportation	106,559	3%	89,123	2%
Agriculture	251,210	7%	150,131	4%
Energy	165,746	4%	97,921	3%
Other	236,731	6%	221,741	6%
Total	**2,242,857**		**1,975,044**	54%
Individuals				
Mortgage loans	718,981	19%	702,746	19%
Consumers loans, personal needs loans and overdrafts	844,568	22%	987,469	27%
Credit cards	25,523	1%	26,093	1%
Total	**1,589,072**		**1,716,308**	46%
Total portfolio before provision	3,831,929		3,691,352	
Less allowance for loan impairment	(160,653)		(240,953)	
Total portfolio, net	**3,671,276**		**3,450,399**	

According to the Bank's policy, each borrower is rated when their credit limit is initially determined and thereafter, they are systematically re-rated on at least an annual basis. The ratings are also updated in cases when there is updated available information that may have a significant impact on the level of credit risk.

9 LOANS AND ADVANCES TO CUSTOMERS

Information about credit risk assessment and collaterals. For stratification of credit risk please see also note 33.1.

Corporate Credit

All credit limits are reviewed at least once annually and the responsible approval authorities are determined, based on the size and the category of the total credit risk exposure assumed by the Bank for each debtor or group of interrelated debtors (one obligor principle).

As far as Corporate Loans are concerned (both for large companies as well as for small and medium sized companies), the Bank applies the Moody's Risk Advisor borrower credit rating system (MRA).

The scoring is updated when the Bank receives new information about customers' creditworthiness, and at least once a year.

The credit ratings below 12 (of the 23 rating grades) correspond to Strong category. All the customers allocated to stage 1 which have not been identified into Strong category are presented as Satisfactory, while Watch list and Default categories are identified based on stage 2, respectively stage 3 classes.

Retail Credit

As far as retail loans are concerned, the Bank is focusing on the application of modern credit risk and fraud prevention measurement methods, using also scoring models, tailored to the profile of the Bank retail lending customer portfolio.

The approval of a loan is possible only if the calculated Application score (A-score) for the applicant is above a certain threshold, established as to ensure that the performance of the retail lending portfolio is according to Bank's risk strategy and profile. The specific score is calculated based on a set of characteristics, each characteristic having a weight correlated with its potentially triggered delinquency rate as resulting from the Bank's actual portfolio.

The monitoring of the existing retail exposures is done using a Behavioural Score (B-score). The B-score is calculated on a monthly basis taking into account the performance of the existing client within a time frame of 3-12M in terms of dpd buckets, restructurings, payments etc.

The B-score is calculated at a client level, covering the behaviour of a specific client in respect to all of its exposures: Secured Loans, Unsecured Loans and Credit Cards. The B-score is back-tested and validated at least once per year with the support of the external provider.

The credit ratings above 238 (of the 100-320 rating grades) correspond to Strong category. All the customers allocated to stage 1 which have not been identified into Strong category are presented as Satisfactory, while Watch list and Default categories are identified based on stage 2, respectively stage 3 classes.

The disclosure below represents the lower of the carrying value of the loan or collateral taken; the remaining part is disclosed within the unsecured exposures. The carrying value of loans was allocated based on liquidity of the assets taken as collateral.

(all amounts in RON thousand unless otherwise stated)

9 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Information about collateral

31 December 2018

	Corporate entities	Small medium entities	Mortgages	Consumer / personal loans	Credit cards	Overdraft	Total
Loans guaranteed by other banks	-	450	-	-	-	-	450
Loans collateralised by:							
- residential real estate	159,497	229,557	476,707	257,446	-	-	1,123,208
- other real estate	372,989	313,094	11,342	11,164	-	-	708,589
- cash deposits	18,961	12,414	3,452	478	-	-	35,305
- Guarantee Fund	9,406	18,181	153,936	-	-	-	181,523
Total secured exposures	**560,853**	**573,696**	**645,437**	**269,088**	**-**	**-**	**2,049,075**
Unsecured exposures	**782,686**	**271,930**	**55,079**	**454,082**	**25,042**	**33,382**	**1,622,201**
Total loans and advances to customers	**1,343,539**	**845,626**	**700,516**	**723,170**	**25,042**	**33,382**	**3,671,276**

(all amounts in RON thousand unless otherwise stated)

9 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Information about collateral

31 December 2017

	Large corporate entities	Small medium entities	Mortgages	Consumer / personal loans	Credit cards	Overdraft	Total
Loans guaranteed by other banks	-	8,675	-	-	-	-	8,675
Loans collateralised by:							
- residential real estate	9,070	247,836	442,954	336,752	-	-	1,036,612
- other real estate	39,949	685,875	8,938	13,043	-	-	747,805
- cash deposits	1,692	24,740	3,057	3,439	-	-	32,928
- Guarantee Fund	-	10,509	156,614	-	-	-	167,123
Total secured exposures	**50,711**	**977,635**	**611,563**	**353,234**	**-**	**-**	**1,993,143**
Unsecured exposures	**142,912**	**694,346**	**65,965**	**493,714**	**25,593**	**34,726**	**1,457,256**
Total loans and advances to customers	**193,623**	**1,671,981**	**677,528**	**846,948**	**25,593**	**34,726**	**3,450,399**

(all amounts in RON thousand unless otherwise stated)

9 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

In the calculation of the allowance for impairment fair values of the collaterals have been used as presented in this note, and, where applicable, future cash flows estimated repayments were considered as well.

The financial effect of collateral is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets").

31 December 2018

	Over-collateralised assets		Under-collateralised assets	
	Carrying value of the assets	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of collateral**
Corporate entities	308,455	585,257	1,035,084	252,397
Small medium entities	402,002	754,941	443,624	171,694
Loans to individuals:				
Mortgages	411,944	611,672	288,572	233,493
Consumer / personal loans	152,015	328,302	571,155	117,188
Credit card	-	-	25,042	-
Overdraft	-	-	33,382	-
Total	**1,274,416**	**2,280,172**	**2,396,859**	**774,772**

31 December 2017

	Over-collateralised assets		Under-collateralised assets	
	Carrying value of the assets	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of collateral**
Large corporate entities	13,478	16,924	180,145	37,232
Small medium entities	629,501	1,189,710	1,042,480	348,134
Loans to individuals				
Mortgages	317,352	432,240	360,176	294,211
Consumer / personal loans	200,849	345,473	646,099	152,385
Credit card	-	-	25,593	-
Overdraft	-	-	34,726	-
Total	**1,161,180**	**1,984,347**	**2,289,219**	**831,962**

(all amounts in RON thousand unless otherwise stated)

10 INVESTMENT SECURITIES

By type of instrument:

	31 December 2018	31 December 2017
Bonds FVOCI /AFS	913,329	729,291
Bonds at amortised cost	516,212	-
Equity investments – unlisted (i)	1,339	1,396
Less allowance	(50)	-
Total amounts	**1,430,829**	**730,687**

Presentation by category is presented in Note 33.7.

Given the Bank's objective to maintain a government bonds portfolio which guarantees the access to liquidity sources in case of temporary liquidity needs, according to Bank's liquidity strategy, meaning to keep a range of RON 500 Mn equivalent free bonds, the Bank reclassified a part of FVOCI portfolio to amortised cost.

(i) Investment securities available for sale include equity securities with a carrying value of RON 1,339 thousand (2017: RON 1,396 thousand) which are not publicly traded. Due to the nature of the local financial markets, it is not possible to obtain current market value for these investments.

Analysis by credit quality of debt securities outstanding at 31 December 2018 and 2017 is as follows:

	31 December 2018	31 December 2017
	Investment securities	***Investment securities***
BBB-	1,429,491	729,291
Total	**1,429,491**	**729,291**

The movement in the investment securities FVOCI/AFS is presented below:

At 1 January 2018	**970,827**
Additions	1,370,646
Disposals (sold or matured)	(969,759)
Income from accrued interest	41,149
Income from cashed interest	(40,480)
Reclassification to Amortized category	(515,344)
Foreign exchange impact	1,011
Reclassification to Repo transactions	59,763
Gains/ (losses) from changes in fair value (Note 25)	(4,125)
At 31 December 2018	**913,328**

(all amounts in RON thousand unless otherwise stated)

10 INVESTMENT SECURITIES (CONTINUED)

At 1 January 2017	**555,557**
Additions	294,833
Disposals (sold or matured)	(241,407)
Income from accrued interest	24,493
Income from cashed interest	(24,176)
Reclassification from Trading category	415,919
Foreign exchange impact	16,378
Reclassification to Repo transactions	(308,406)
Gains/ (losses) from changes in fair value (Note 25)	(2,504)
At 31 December 2017	**730,687**

The bonds classified by the Bank as fair value through other comprehensive income are issued by Ministry of Finance Romania, the EUR denominated ones having a nominal interest rate between 1% and 6.5% and RON Bonds having a nominal interest rate between 1.35% and 3.95%.

Financial assets held at amortized cost

At 1 January 2018	**-**
Additions	-
Disposals (sold or matured)	-
Income from accrued interest	867
Income from cashed interest	-
Reclassification from FVOCI category	515,344
Foreign exchange impact	-
At 31 December 2018	**516,212**

The bonds classified by the Bank at amortised cost consist in EUR bonds issued by Ministry of Finance Romania, having a nominal interest rate of 1.25%, and RON Bonds issued by Ministry of Finance Romania, having a nominal interest rate between 2.30% and 5.75%.

Trading Securities

	31 December 2018	31 December 2017
Treasury securities issued by Romanian Government		
- in RON	-	223,366
-in EUR	-	16,774
	-	**240,140**

Analysis by credit quality of debt trading securities is as follows at 31 December 2017:

Neither past due nor impaired (at fair value)

	31 December 2018 *Trading securities*	31 December 2017 *Trading securities*
BBB	-	240,140
Total	**-**	**240,140**

Translation from the original Romanian version.

(all amounts in RON thousand unless otherwise stated)

11 REPURCHASE RECEIVABLES

Repurchase receivables represent securities sold under sale and repurchase agreements which the counterparty has the right, by contract or custom, to sell or re-pledge. The repurchase agreements are short-term in nature.

	31 December 2018	31 December 2017
FVOCI/Available-for-sale securities sold under sale and repurchase agreements - Romanian government bonds	317,467	377,230
Less credit loss allowance	-	-
Total repurchase receivables representing available-for-sale securities	**317,467**	**377,230**

Investment securities reclassified to repurchase receivables continue to be carried at fair value in accordance with accounting policies for these categories of assets.

Securities from the portfolio are issued by the Romanian Government, having a BBB- with stable outlook (Standard & Poor's) rating.

12 DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

At 31 December 2018

	Contract/		Fair values
	Notional amount	Assets	Liabilities
Derivative held for trading			
Currency swaps	586,414	1,820	1,437
Options	-	-	-
Total	**586,414**	**1,820**	**1,437**

At 31 December 2017

	Contract/		Fair values
	Notional amount	Assets	Liabilities
Derivative held for trading			
Currency swaps	1,615,085	912	6,189
Options	1,671	22	22
Total	**1,616,756**	**934**	**6,211**

(all amounts in RON thousand unless otherwise stated)

12 DERIVATIVE FINANCIAL ASSETS AND LIABILITIES (continued)

The counterparties with whom the Bank has derivatives agreements as of 31 December 2018 are presented below. No outstanding transactions with Piraeus Bank Greece due to change of shareholder.

Notional amount as of 31 December 2018:	**Currency swaps**	**Interest Rate Swaps**
Piraeus Bank Greece	-	-
Other Financial Institutions	586,414	-
Private Individuals	-	-
Private Companies	-	-
Total Derivatives	**586,414**	**-**

Notional amount as of 31 December 2017:	**Currency swaps**	**Interest Rate Swaps**
Piraeus Bank Greece	1,256,422	-
Other Financial Institutions	358,663	-
Private Individuals	1,671	-
Private Companies	-	-
Total Derivatives	**1,616,756**	**-**

The Bank uses derivative instruments for non-hedging purposes.

The Bank has derivatives subject to offsetting based on enforceable master netting and similar arrangements, as follows:

At 31 December 2018	**Contract/ notional amount**	**Assets**	**Fair values Liabilities**
Derivative held for trading			
Currency swaps	400,096	1,820	376
Net asset/(liability) after offsetting (*)	-	-	(1,443)
Total	**400,096**	**1,820**	**(1,067)**

At 31 December 2017	**Contract/ notional amount**	**Assets**	**Fair values Liabilities**
Derivative held for trading			
Currency swaps	1,275,935	-	6,189
Net asset/(liability) after offsetting (*)	-	-	6,189
Total	**1,275,935**	**-**	**12,378**

(*) The Bank presented gross amounts before offsetting in the statement of financial position.

The Bank systematically monitors and controls the exposure and duration of its net open positions in the derivative markets. Credit exposures from positions in the derivative markets are part of the overall credit limits set for any counterparty and are taken into consideration during the approval procedure. Usually, no guarantees or securities are taken against exposures in derivative products, except when the Bank demands the application of a safety margin from counterparty.

Credit risk arises also from the settlement of trades in derivative products. The Bank has established and systematically monitors, daily settlement limits for derivative products transactions, which are included in the overall credit limit of any counterparty.

(all amounts in RON thousand unless otherwise stated)

13 INVESTMENT PROPERTY

	31 December 2018	31 December 2017
Investment property at fair value at 1 January	**30,879**	**30,879**
Fair value loss	(659)	-
Investment property at fair value at 31 December	**30,220**	**30,879**

The future minimum lease payments receivable under non-cancellable operating leases are as follows:

	31 December 2018	31 December 2017
Not later than 1 year	2,108	3,158
Later than 1 year and not later than 5 years	-	2,108
Total operating lease payments receivable	**2,108**	**5,266**

The fair value of the investment property as at 31 December 2018 and 31 December 2017 has been arrived at on the basis of a valuation carried out on the respective dates by an independent valuator, which is member of the Romanian Institute of Valuers (ANEVAR), and it has appropriate qualifications in the valuation of properties in the relevant location. The fair value was determined based on the capitalisation of net income method, where the market rentals of all lettable units of the properties are assessed by reference to the rentals achieved in the lettable units as well as other lettings of similar properties in the neighbourhood. The capitalisation rate adopted is made by reference to the yield rates observed by the valuers for similar properties in the locality and adjusted based on the valuator's knowledge of the factors specific to the respective properties.

There has been no change to the valuation technique during the year.
In estimating the fair value of the properties, the highest and best use of the properties is their current use.

For investment properties categorized into Level 3 of the fair value hierarchy, the following information is relevant:

	Valuation techniques	Significant unobservable input(s)	Sensitivity
Office building located in Calea Grivitei, nr.24, District 1, Bucharest	Income Capitalization Approach	Capitalization rate, taking into account the capitalization of rental income potential, nature of the property, and prevailing market condition, of 9% - 12%.	A slight increase in the capitalization rate used would result in a significant decrease in fair value, and vice versa.
		Monthly market rent, taking into account the differences in location, and individual factors, such as frontage and size, between the comparable and the property.	A significant increase in the market rent used would result in a significant increase in fair value, and vice versa.

(all amounts in RON thousand unless otherwise stated)

14 PREMISES AND EQUIPMENT

	Buildings and land	Leasehold improvements	Furniture and equipment	Assets in course of construction	Total
Year ended 31 December 2018					
Opening net book amount	-	**7,877**	**15,755**	**788**	**24,420**
Additions	88,060	115	7,514	6,771	102,460
Transfers	-	831	3,649	(4,480)	-
Disposals	(136)	(5,898)	(3,706)	-	(9,740)
Depreciation charge	(897)	(3,352)	(7,397)	-	(11,646)
Accumulated depreciation for disposals and transfers	-	5,898	3,526	-	9,424
Impairment provision	-	475	58	-	533
Closing net book amount	**87,027**	**5,946**	**19,399**	**3,079**	**115,451**
At 31 December 2018					
Cost	87,924	76,134	152,324	3,079	319,461
Accumulated depreciation	(897)	(69,245)	(132,925)	-	(203,067)
Impairment provision	-	(943)	-	-	(943)
Net book amount	**87,027**	**5,946**	**19,399**	**3,079**	**115,451**

(all amounts in RON thousand unless otherwise stated)

14 PREMISES AND EQUIPMENT (CONTINUED)

	Leasehold improvements	Furniture and equipment	Assets in course of construction	Total
Year ended 31 December 2017				
Opening net book amount	**12,813**	**19,238**	**1,116**	**33,167**
Additions	298	3,448	2,256	6,002
Transfers	619	2,059	(2,584)	94
Disposals	(3,234)	(3,359)	-	(6,593)
Depreciation charge	(4,434)	(8,948)	-	(13,382)
Accumulated depreciation for disposals and transfers	3,234	3,317		6,551
	-	-	-	-
Impairment provision	(1,419)	-	-	(1,419)
Closing net book amount	**7,877**	**15,755**	**788**	**24,420**
At 31 December 2017				
Cost	81,088	144,808	788	226,684
Accumulated depreciation	(71,792)	(129,053)	-	(200,845)
Impairment provision	(1,419)	-	-	(1,419)
Net book amount	**7,877**	**15,755**	**788**	**24,420**

(all amounts in RON thousand unless otherwise stated)

15 INTANGIBLE ASSETS

The changes recorded during 2018 and 2017 in the intangible assets are presented below:

	Computer software	Software in course of construction	Total
Year ended 31 December 2018			
Opening net book amount	**32,578**	**6,079**	**38,657**
Additions	3,886	16,299	20,185
Transfers	7,024	(7,024)	-
Disposal	(3,703)	(107)	(3,810)
Amortisation charge	(15,199)	-	(15,199)
Accumulated depreciation for disposals and transfers	3,656	-	3,656
Closing net book amount	**28,242**	**15,247**	**43,489**
At 31 December 2018			
Cost	125,740	15,247	140,987
Accumulated amortisation	(97,498)	-	(97,498)
Net book amount	**28,242**	**15,247**	**43,489**
Year ended 31 December 2017			
Opening net book amount	**13,378**	**13,134**	**26,512**
Additions	5,906	20,151	26,057
Transfers	27,038	(27,038)	-
Disposal	(4,195)	(168)	(4,363)
Amortisation charge	(13,744)	-	(13,744)
Accumulated depreciation for disposals and transfers	4,195	-	4,195
	-	-	-
Closing net book amount	**32,578**	**6,079**	**38,657**
At 31 December 2017			
Cost	118,532	6,079	124,611
Accumulated amortisation	(85,954)	-	(85,954)
Net book amount	**32,578**	**6,079**	**38,657**

(all amounts in RON thousand unless otherwise stated)

16 OTHER ASSETS

16.1. Other financial assets

	31 December 2018	31 December 2017
Guarantees-deposits	2,030	1,927
Other assets and receivables (i)	14,079	8,944
Total	**16,109**	**10,871**
Less provision	(1,539)	(1,261)
Total other financial assets	**14,570**	**9,610**

Other assets and receivables refers to claims to debtors for various services of RON 5,700 thousand (31 December 2017: RON 3,835 thousand), overdue commissions of RON 2,495 thousand (31 December 2017: RON 2,355 thousand), other receivables related to cards operations of RON 3,168 thousand (31 December 2017: RON 1,875 thousand), amounts to be recovered from settlement services of RON 752 thousand (31 December 2017: RON 160 thousand).

Movements in provision for other financial assets are as follows:

	31 December 2018	31 December 2017
Balance at beginning of the year	**1,261**	**1,295**
Charge/(release) of provision to income statement	2,302	5,235
Write-off of provisions	(1,943)	(5,187)
Foreign exchange differences	(81)	(82)
Balance at end of year	**1,539**	**1,261**

16.2. Other non-financial assets

	31 December 2018	31 December 2017
Prepayments	5,433	3,196
Inventory (i)	3,040	3,505
Gold	1,672	2,618
Receivable from State	882	2,134
Other non-financial assets	3,751	1,872
Total	**14,778**	**13,325**
Less provision (ii)	(5,853)	(3,976)
Total other non-financial assets	**8,925**	**9,349**

(i) Inventories in amount of RON 3,040 thousand in 2018 (2017: RON 3.505 thousand) contains mainly consumables related to cards activity and other equipment from closed branches that are intended to be used in the existing network and head office.

(ii) Provisions for non-financial assets refers to medical leaves provisions in amount of RON 3,750 thousand in 2018 (2017: RON 1,873 thousand) and inventory provisions in amount of RON 2,103 thousand in 2018 (2017: RON 2,103 thousand).

(all amounts in RON thousand unless otherwise stated)

16 OTHER ASSETS (CONTINUED)

16.2 Other non-financial assets (continued)

Movements in provisions for other non-financial assets are as follows:

	31 December 2018	31 December 2017
Balance at beginning of the year	**3,976**	**2,856**
Charge/(Release) of provision to income statement	1,877	1,120
Balance at end of year	**5,853**	**3,976**

17 REPOSSESSED ASSETS FROM FORECLOSED LOANS CONTRACTS

	31 December 2018	31 December 2017
Opening (gross book value)	**93,834**	**92,815**
Additions	10,560	15,361
Disposals	(15,280)	(14,342)
Accumulated provision	(57,049)	(55,410)
Closing net book amount	**32,065**	**38,424**

Movements in provisions for repossessed assets from foreclosed loans contracts are as follows:

	31 December 2018	31 December 2017
Opening (gross book value)	**55,410**	**55,323**
Charge/(Release) of the year	7,830	4,679
Release of provisions from sales	(6,191)	(4,592)
Closing net book amount	**57,049**	**55,410**

The following table presents incomes and expenses from the sale of the repossessed assets from foreclosed loans contracts:

	31 December 2018	31 December 2017
Expenses from sale of repossessed assets (Note 17)	(9,072)	(9,860)
Incomes from sale of repossessed assets (Note 17)	10,822	11,423
Net Result from sale of repossessed assets from foreclosed loans contracts	**1,750**	**1,563**

(all amounts in RON thousand unless otherwise stated)

17 REPOSSESSED ASSETS FROM FORECLOSED LOANS CONTRACTS (continued)

The following table presents the Bank's repossessed assets from foreclosed loan contracts at their net book amounts, split by category type:

	31 December 2018	31 December 2017
Residential real estate	21,756	26,628
Commercial real estate	4,781	3,041
Agriculture	3,294	4,572
Industrial Area	1,790	3,699
Hotel	49	-
Forestry	76	88
Other	319	396
Total Repossessed assets from foreclosed loans contracts	**32,065**	**38,424**

18 DUE TO OTHER BANKS

	31 December 2018	31 December 2017
Sight deposits	250,947	194,659
Term deposits	66,743	394,747
Sale and repurchase agreements with banks	302,854	366,547
Loans from international financial institutions (IFIs)	-	24,240
Total	**620,544**	**980,193**

During 2018, term deposits from former parent company (Piraeus Bank S.A – Greece), amounting RON 209,706 have been repaid.

During 2018, interest rates on sight and term deposits ranged from 0% to 3.6%, while in 2017 from 0.1% to 2.17%.

19 CUSTOMER ACCOUNTS

	31 December 2018	31 December 2017
Current accounts	1,508,247	1,185,763
Term deposits	3,531,903	3,050,027
Collateral deposits	88,280	111,351
Fiduciary deposits	4,473	-
Total	**5,132,903**	**4,347,141**

During 2018, on RON accounts the interest rates ranged from 0% to 3.90%, with the maximum level paid for 1 year on RON denominated term deposits, while for EUR accounts the interest rates ranged between 0% and 2.0%, with the maximum level paid for 4 months on EUR denominated term deposits.

(all amounts in RON thousand unless otherwise stated)

19 CUSTOMER ACCOUNTS (continued)

Economic sector concentrations within customer accounts are as follows:

	31 December 2018		31 December 2017	
	Amount	%	Amount	%
Agriculture	80,647	2%	48,433	1%
Construction and Real Estate	473,015	9%	375,861	9%
Energy	82,957	2%	58,222	1%
Financial Sector	767,940	15%	559,580	13%
Manufacturing	161,776	3%	176,166	4%
Education	172,327	3%	213,982	5%
Public sector	14,545	0%	10,096	0%
Tourism	41,727	1%	38,258	1%
Trade	232,765	5%	216,765	5%
Transport	102,783	2%	98,773	2%
Individuals	2,597,177	51%	2,247,398	52%
Other	405,283	8%	303,607	7%
Total customer accounts	**5,132,903**	**100%**	**4,347,141**	**100%**

At 31 December 2018, the first 10 depositors of the Bank had balances of RON 934,394 thousands, representing 18% of total customer accounts (2017: RON 844,047 thousands representing 19% of total customer accounts).

20 OTHER LIABILITIES

20.1. Other financial liabilities

	31 December 2018	31 December 2017
Precontracts for repossessed assets	975	16,765
Payables to suppliers	30,343	7,214
Payable for reorganization plans	644	9,864
Stock transactions	4,331	1,551
Payable to State	7,405	192
Other payables	6,117	11,956
Provisions for off balance sheet commitments	4,618	2,775
Total	**54,433**	**50,317**

20.2. Other non-financial liabilities

	31 December 2018	31 December 2017
Other taxes and social contributions payable and payables	8,276	4,939
Other accruals related to employees	9,091	28,762
Other liabilities	5,105	665
Non-financial liabilities	**22,472**	**34,366**

(all amounts in RON thousand unless otherwise stated)

21 PROVISIONS FOR RISKS AND CHARGES

	31 December 2018	31 December 2017
Provisions for litigations	25,161	27,634
Provisions for potential claims (i)	92,055	47,207
Provisions for rents (Note 31)	-	4,001
Other provisions	221	-
Provisions for risks and charges	**117,437**	**78,842**

The amount of the provisions for risk and charges is the best estimate of the amount required to settle the obligation, taking into account the associated risks. Provisions were recognised for all the situations when: a legal or implicit obligation as a result of a past event appeared, the possibility that an outflow of resources embodying economic benefits required to settle the obligation was more likely than the possibility of not being required and a reliable estimation could be made for the amount of the obligation.

(i) In January 2019, the Bank lost a court case related to past commercial practices. Subsequently, additional provisions in amount of RON 38.6 million have been booked in 2018.

Movements in provisions for risks and charges are presented below:

	31 December 2018	31 December 2017
Balance at beginning of the year	**78,842**	**53,391**
Charge of provision to income statement	54,796	27,355
Release of provision to income statement	(16,201)	(1,904)
Balance at the end of the year	**117,437**	**78,842**

22 SUBORDINATED DEBTS

	31 December 2018	31 December 2017
Subordinated debts	186,678	256,344
Subordinated debts	**186,678**	**256,344**

The Bank contracted a subordinated loan of EUR 15,000 thousand on 15 November 2005 from Piraeus Bank S.A. Greece (former parent). The loan was fully repaid in May 2018.

In 2013, during the transfer of business from ATE Bank Romania the Bank took over two other subordinated loans in amount of EUR 24,000 thousand and EUR 40,000 thousand. The subordinated loan in amount of EUR 24,000 thousand was converted in share capital during 2015. The remaining one in amount of EUR 40,000 thousand carries a variable interest rate (3M Euribor+6.2%, changed in June 2018 from 3M Euribor+2.5%) and is repayable in 2023.

The Bank is not subject to any covenants from the subordinated loan agreement.

(all amounts in RON thousand unless otherwise stated)

23 TRANSFERRED FINANCIAL ASSETS

The Bank enters into transactions by which it transfers financial assets directly to third parties. These transfers may give rise to the full, partial or no derecognition of the financial assets concerned.

A. Transfers of financial assets not qualifying for de-recognition

1. Sale and repurchase agreements

The Bank sells, in exchange for cash, securities under an agreement to repurchase them ('repos') and assumes a liability to repay to the counterparty the cash received.

The Bank has determined that it retains substantially all the risks and rewards of these financial assets and therefore has not derecognised them.

The carrying amount of securities sold under repurchase agreements at 31 December 2018 was RON 317 million (2017: RON 377 million) all being classified as investment securities available for sale for both periods. For more details, please refer to Note 11.

The carrying amount of the associated liabilities under repurchase agreements at 31 December 2018 was RON 303 million (2017: RON 367 million). For more details, please refer to Note 18.

B. Transfers of financial assets qualifying for de-recognition

Transferred financial assets that are derecognized in their entirety and where the Bank has transferred substantially all risks and rewards associated to the transferred assets.

Funded participations:

During 2018, the Bank transferred to Piraeus Bank S.A. London Branch loans under funded participation agreement. Risks and rewards associated with the participated loans were substantially transferred from the Bank. As a consequence, the Bank derecognized during 2018 gross contractual receivables with a nominal value of RON 252,403 thousand (2017: RON 6,863 thousand). Post transfer, the Bank acts as an administrator for the participated financial assets for which it receives a service fee.

24 SHARE CAPITAL

	31 December 2018	31 December 2017
Subscribed share capital at the beginning of the year	1,106,141	1,106,141
Restatement for hyperinflation (IAS 29)	57,693	57,693
Total	**1,163,834**	**1,163,834**

At 31 December 2018, the registered share capital of the Bank consists of 222,608,563 (31 December 2017: 222,608,563) allotted and fully paid ordinary shares of RON 5 each.

The difference in the value of share capital disclosed and the nominal value of the shares issued relates to the shares issued based on the revaluation reserve recognised under the Romanian Accounting Standards (and not recognised under IFRS) in 2004 carried forward.

(all amounts in RON thousand unless otherwise stated)

25 OTHER RESERVES

	31 December 2018	31 December 2017
Statutory reserve (i)	26,329	26,329
Statutory reserve transferred *from ATE (i)*	8,956	8,956
General reserve for banking risks *(ii)*	10,992	10,992
General reserve for banking risks transferred *from ATE (ii)*	2,661	2,661
Other reserves transferred from ATE	32,166	32,166
FVTOCI/Available for sale reserve (deficit)	(4,075)	(624)
Total	**77,029**	**80,480**

In December 2013, in the context of the spin-off of ATE Bank Romania, the Bank has transferred reserves in a total amount of RON 43,783 thousands, as detailed above.

The movement in the other reserves is detailed below by each category of reserve:

	31 December 2018	31 December 2017
Statutory reserve		
At the beginning of the year	**35,285**	**34,750**
Allocation from current year profit	-	535
At the end of the year	**35,285**	**35,285**
General reserve for banking risks		
At the beginning of the year	**13,653**	**13,653**
At the end of the year	**13,653**	**13,653**

	31 December 2018	31 December 2017
FVTOCI/ Available for sale reserve (deficit)		
At the beginning of the year	**(624)**	**1,480**
Changes in fair value of investments securities	(2,645)	(416)
Deferred tax credit	438	67
Recycling of AFS Reserve through P&L	(1,481)	(2,089)
Deferred tax (expense)/credit	237	334
At the end of the year	**(4,075)**	**(624)**

In accordance with the Romanian law on banks and banking activities, the Bank must distribute the profit as dividends or make a transfer to retained earnings or reserves on the basis of the financial statements.

(all amounts in RON thousand unless otherwise stated)

25 OTHER RESERVES (continued)

Amounts transferred to reserves must be used for the purposes designated when the transfer is made.

(i) Starting with 2004, under Romanian banking legislation the Bank is required to create the statutory reserve, appropriated at the rate of 5% of the gross profit, until the total reserve is equal to 20% of the issued and fully paid up share capital. The statutory reserves are not distributable to shareholders.

(ii) The general banking risk reserve includes amounts set aside as profit reserves for future losses and other unforeseen risks or contingencies, in accordance with local banking regulations. The general banking risk reserve was allocated starting with financial year 2004 until the end of financial year 2006. The general banking risk reserve was allocated from the gross statutory profit at a rate of 1% applied on the balance of assets exposed to specific banking risks.

26 NET INTEREST INCOME

	31 December 2018	31 December 2017
Interest income		
Loans and advances to customers	230,955	192,064
Current accounts and deposits due from banks	1,686	7,066
Reverse repo with banks	1	
Investment securities available for sale	29,250	6,293
Trading securities	925	22,966
Finance lease receivables	3,503	4,662
Total	**266,320**	**233,051**
Interest expense		
Deposits to other banks	4,201	25,423
Customer deposits	47,683	36,114
Subordinated debt	7,727	4,147
Finance lease expenses	-	-
Total	**59,611**	**65,684**
Net interest income	**206,709**	**167,367**

Interest income on impaired financial assets (corresponding to stage 3) was RON 14,343 thousands in 2018 (2017: RON 24,766 thousand).

(all amounts in RON thousand unless otherwise stated)

27 NET FEE AND COMMISSION INCOME

Fee and commission income

	31 December 2018	31 December 2017
Administration fees (1)		
- Sub-participated / sold loans – Piraeus Bank S.A	39,137	75,509
- Other Portfolios	6,500	185
Payments transactions	31,549	31,314
Letters of guarantee	2,297	1,491
Gold transactions (2)	609	603
Bancassurance	7,850	7,986
Cards transactions	13,814	12,572
Factoring	3,204	2,024
Leasing	818	807
Other commissions	-	2,873
Total	**105,778**	**135,364**

(1) The commission income from administration fees includes:

- Fees related to loans transferred to Piraeus Bank S.A. London Branch, for which the Bank continues to render administration services.

- Fees from administration services related to other portfolios: the 2018 incomes are related to administration services provided to Eurobank for loans originated by its former subsidiary (i.e. Bancpost S.A).

(2) The cost of sale and income related to gold transactions are presented below:

	31 December 2018	31 December 2017
Gold cost of sale	(5,685)	(4,610)
Gold sale income	6,294	5,213
Net result	**609**	**603**

Fee and commission expense

	31 December 2018	31 December 2017
Payments transactions	2,878	2,725
Cards transactions	9,421	9,124
Funding commitment	2,393	628
Factoring	240	118
Leasing	403	629
Other commissions	3,073	4,952
Total	**18,408**	**18,176**
Net fee and commission income	**87,370**	**117,188**

(all amounts in RON thousand unless otherwise stated)

28 GAINS LESS (LOSSES) FROM FINANCIAL DERIVATIVES

	31 December 2018	31 December 2017
Foreign exchange derivatives	19,002	30,060
Interest rate swaps	-	-
Gold accounts (e-gold)	55	70
Total	**19,057**	**30,130**

29 GAINS LESS (LOSSES) FROM TRADING IN FOREIGN CURRENCIES

	31 December 2018	31 December 2017
Foreign Exchange		
Gains less (losses) from spot transactions	20,170	22,311
Gains less (losses) from revaluation of assets and liabilities denominated in foreign currency	2,599	690
Total	**22,769**	**23,001**

30 OTHER OPERATING INCOME

	31 December 2018	31 December 2017
Dividend income	891	781
Other income	5,751	6,214
Total	**6,642**	**6,995**

Dividend income of RON 891 thousand represents incomes from: Biroul de Credit - RON 266 thousand (2017: 261 thousand), Transfond - RON 618 thousand (2017: RON 512 thousand) and from Depozitarul Central SA - RON 7 thousand (2017: 8 thousand).

(all amounts in RON thousand unless otherwise stated)

31 ADMINISTRATIVE AND OTHER OPERATING EXPENSES

Administrative expenses	**31 December 2018**	**31 December 2017**
Staff Expenses		
Salaries	141,376	92,734
Social security and other contributions	4,160	21,096
Defined benefit contributions	(12)	29
Other staff cost	7,944	7,830
Administrative Expenses		
Services from third parties (1)	15,976	10,841
Audit services	1,309	672
Postal and telecommunication	6,250	5,715
Cards operations	4,243	3,303
Rent	50,985	55,356
Insurance premium	940	1,400
Physical Security expenses	3,874	3,386
Buildings Maintenance & Repairs	5,306	4,562
Utilities	4,366	4,373
IT Maintenance	13,734	10,055
Collection of loans and receivables	1,439	2,151
Advertising expenses (2)	15,838	5,652
Consumables	3,077	3,384
Other Administrative	10,165	10,023
Depreciation and amortisation (Notes 15 and 16)	26,844	27,127
Total	**317,814**	**269,689**

Other operating expense	**31 December 2018**	**31 December 2017**
Contribution to Deposits Guarantee Fund and Resolution Fund	3,756	7,249
Other provisions (i)	28,248	37,777
Other operating expenses (ii)	14,126	16,562
Fines and penalties expenses due to fiscal audit	23,698	-
Total	**69,828**	**61,588**

(1) In services from third parties are included services provided by the financial auditor that are non audit related in amount of RON 348 thousand (2017: RON 13 thousand).

(2) The increase of advertising expenses during 2018 is related to rebranding process (i.e RON 9,611 thousand).

(i) Other provisions include:

	31 December 2018	**31 December 2017**
Provisions for rents (Note 21)	48	1,742
Provisions for leasehold improvements in closed branches (Note 21)	(3,831)	-
Provisions for off balance sheet credit commitments	2,003	47
Provisions for repossessed assets (Note 17)	7,830	4,679
Provision for sundry debtors	1,292	3,456
Provisions for litigations (Note 21)	(2,473)	3,432
Provisions for potential claims (Note 21)	44,848	20,347
Other provisions	(21,469)	4,074
Total	**28,248**	**37,777**

(ii) Other operating expenses are mainly outcome of lost litigations in relation to claims derived from loan contracts (2018: RON 8,330 thousands, 2017: RON 10,455 thousands).

(all amounts in RON thousand unless otherwise stated)

32 INCOME TAX (EXPENSE)/CREDIT

The income tax consists of current and deferred income tax as follows:

	31 December 2018	31 December 2017
Current tax expense	(593)	-
Deferred income tax (expense)/credit	(13,809)	78
Income tax (expense) / credit for the year	**(14,401)**	**78**

The tax on Bank's profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

	31 December 2018	31 December 2017
(Loss) / Profit before income tax	**(21,258)**	**10,693**
Theoretical tax (charge) / credit at the applicable statutory rate at 16%	3,401	(1,711)
Tax effect of:		
Non-deductible expenses	(19,491)	(12,924)
Income which is exempt of taxation	10,468	3,981
Legal reserve	-	-
Unrecognised other potential deferred tax assets	-	-
Other elements similar to revenues	-	-
Other elements similar to expenses	221	78
Unrecognised tax loss carried forward	-	-
Unrecognised profit tax	10,548	10,569
Current tax expense for the current year, after the loss carry forward	(593)	-
Income tax (expense) / credit for the year	**(14,401)**	**78**

Current income tax is calculated by applying a rate of 16%. Deferred income taxes are calculated on temporary differences under the liability method using a profit tax rate of 16%.

The lossess carried forward amounting Ron 62,219 thousand have been used to cover the fiscal profit of Ron 65,924 thousand.

(all amounts in RON thousand unless otherwise stated)

32 INCOME TAX (EXPENSE)/ CREDIT (CONTINUED)

Deferred income tax assets and liabilities are attributable to the following items:

	31 December 2018	Tax (expense)/ credit recognized in income statement	Tax (expense)/ credit recognized in equity	31 December 2017
Tax effect of deductible/ (taxable) temporary differences				
Other accruals	1,085	221	-	864
Gain on fair value through other comprehensive income	794	-	674	120
Hyperinflation of fixed assets and equity investments	56	-	-	56
Fiscal Loss	-	(14,030)	-	14,030
Net tax effect of temporary	1,936	(13,809)	674	15,070

	31 December 2017	Tax expense/ (credit) recognized in income statement	Tax expense/ (credit) recognized in equity	31 December 2016
Tax effect of deductible/ (taxable) temporary differences				
Other accruals	864	78	-	786
Gain on fair value of available for sale instruments	120	-	401	(281)
Hyperinflation of fixed assets and equity investments	56	-	-	56
Fiscal Loss	14,030	-	-	14,030
Net tax effect of temporary	15,070	78	401	14,591

Due to the derecognition of the fiscal loss, the Bank derecognized in 2018 a deferred tax asset of RON 13,809 thousand.

33 FINANCIAL RISK MANAGEMENT

Financial risk management is intertwined with the Bank's business activity. The management, aiming to maintain the stability and continuity of its operations, places high priority on the goal of implementing and continuously improving an effective risk management framework to minimize potential negative effects on the Bank's financial results.

The Bank's Board of Directors is fully responsible for the development and supervision of the risk management framework. In order to coordinate and timely address all risks, a Risk Committee has been established at the level of Board of Directors. The Risk Committee is responsible for the implementation and supervision of the risk management policies and principles.

Both the principles and the existing risk management policies have been created to identify and analyse on a timely basis the risks assumed by the Bank, establishing the appropriate limits and risk control systems, as well as systematically monitoring the risks and ensuring compliance with established limits.

The Bank re-examines annually the adequacy and effectiveness of the risk management framework in order to ensure that it keeps pace with market dynamics, changes in the banking products offered, and international good practices.

The Bank's Risk Department operates as an independent unit, entrusted with the responsibility for planning and implementing of the risk management framework, according to the directions of the Risk Committee. The Bank systematically monitors the following risks resulting from the use of financial instruments: credit risk, market risk, liquidity risk and operational risk.

33.1. Credit risk

The Bank is exposed to credit risk, which is defined as the present or future risk of loss in returns or capital as a result of a borrower's failure to repay a loan or otherwise meet a contractual obligation. The Bank recognizes and manages the intrinsic credit risk in all products and activities. It has appropriate and adequately defined credit-granting criteria, which reflect the market targets and include thorough evaluation of borrowers, counterparties, and guarantors, as well as the purpose, the type of funding, the type of collateral / security and the source of repayment.

The Bank has clearly defined policies and procedures of approving new credit as well as restructuring, renewal, refinancing of existing credit or write-offs while handles possible exceptional deviations with the utmost attention.

Impairment provisions are provided where there is objective evidence that the Bank will not be able to collect all amounts due. Significant changes in the economy or in the health of a particular industry segment that represents a concentration in the Bank's portfolio, could result in additional evidence apart from that provided for at balance sheet date. The Bank therefore carefully manages its exposure to credit risk. The Bank seeks to control credit risk through rigorous credit criteria, which necessarily include the repayment option (first way out), the provision of collaterals (second way out) and the evaluation of the customer. The process is supported by the use of internal rating systems with strong discriminating ability and systems for credit risk measurement and calculation of capital requirements.

The Bank's overall exposure to credit risk mainly results from the approved credit limits and financing of corporate and retail loans, from the Bank's investment and trading activities, from trading activities in the derivative markets, as well as from the settlement of financial instruments. The level of risk associated with any credit exposure depends on various factors, including the general economic and market conditions prevailing, the debtors' financial condition, the amount, type, and duration of the exposure, as well as the collateral/ guarantee coverage.

The Bank mitigates credit risk using a limits structure that allows for grouping and comparison of credit limits for different types of risk exposure at various levels, such as borrower level (including connected borrowers), counterparty level, groups of interrelated borrowers level, sector level and product level. All credit limits are reviewed at least once a year. Exposure to credit risk is monitored through regular analysis of the ability of borrowers and potential debtors to meet interest and principal repayment obligations and through review of lending limits where appropriate. Exposure to credit risk is also mitigated through collateral, and corporate and personal guarantees.

(all amounts in RON thousand unless otherwise stated)

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

33.1 Credit risk (continued)

The split of the portfolio of Loans and advances to customers by industry is detailed in Note 8 and 9 ("Loans and advances to customers"). The Bank's exposure with Central Bank is shown in Note 5 (see "Balances with Central Bank").

The net carrying amount per total stages is presented as follows:

	Gross Exposure					Allowance				
12/31/2018	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**TOTAL**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**TOTAL**
Credit cards and Overdrafts	57,208	2,945	2,254	-	62,406	1,702	202	2,080	-	3,983
Consumer Loan	396,462	8,475	18,940	1,652	425,530	5,978	574	17,991	1,332	25,875
Equity	168,932	146,053	51,535	15,635	382,155	392	8,313	42,403	7,530	58,639
Mortgage	590,224	112,850	14,499	1,408	718,981	1,408	3,236	12,968	853	18,465
Micro and SME	744,562	81,098	39,278	2,294	867,232	8,068	851	11,967	719	21,605
Corporate	1,049,318	236,327	89,980	-	1,375,625	9,918	6,649	15,519	-	32,086
TOTAL:	**3,006,707**	**587,747**	**216,486**	**20,989**	**3,831,929**	**27,466**	**19,825**	**102,927**	**10,435**	**160,653**

	Gross Exposure					Allowance				
1/1/2018	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**TOTAL**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**TOTAL**
Credit cards and Overdrafts	59,121	4,446	6,567	5	70,139	648	155	6,281	5	7,089
Consumer Loan	385,045	16,129	37,720	1,733	440,627	2,808	1,238	29,685	1,265	34,996
Equity	156,711	224,207	109,052	24,520	514,490	1,045	26,853	53,735	11,946	93,579
Mortgage	277,581	394,966	29,601	2,819	704,967	398	10,329	18,376	1,142	30,246
Micro and SME	581,903	56,548	56,974	2,437	697,863	11,652	971	21,316	1,026	34,966
Corporate	920,979	203,917	163,370	2	1,288,268	11,948	4,675	92,657	1	109,281
TOTAL:	**2,381,340**	**900,212**	**403,285**	**31,516**	**3,716,353**	**28,499**	**44,222**	**222,051**	**15,385**	**310,156**

(all amounts in RON thousand unless otherwise stated)

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

33.1 Credit risk (continued)

The net carrying amount of loans and receivables portfolio by stages and type of products at 31 December 2018 and 01 January is presented as follows:

Stage 1

31-Dec-18	**Non past due**	**Past due**	**Total**	**Allowance**	**Total carrying amount**
Credit cards and overdrafts	53,795	3,414	57,208	1,702	55,506
Consumer Loan	376,233	20,230	396,462	5,978	390,485
Equity	160,905	8,027	168,932	392	168,540
Mortgage	583,522	6,703	590,224	1,408	588,816
Micro and SME	734,827	9,735	744,562	8,068	736,494
Corporate	1,025,118	24,200	1,049,318	9,918	1,039,400
	2,934,400	**72,307**	**3,006,707**	**27,466**	**2,979,241**

Stage 1

1-Jan-18	**Non past due**	**Past due**	**Total**	**Allowance**	**Total carrying amount**
Credit cards and Overdrafts	55,478	3,643	59,121	648	58,473
Consumer Loan	370,101	14,943	385,045	2,808	382,237
Equity	151,816	4,895	156,711	1,045	155,667
Mortgage	275,136	2,444	277,581	398	277,183
Micro and SME	577,461	4,442	581,903	11,652	570,251
Corporate	919,680	1,298	920,979	11,948	909,030
	2,349,674	**31,666**	**2,381,340**	**28,499**	**2,352,841**

(all amounts in RON thousand unless otherwise stated)

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

33.1 Credit risk (continued)

Stage 2

31-Dec-18	Non past due	Past due	Total	Allowance	Total carrying amount
Credit cards and overdrafts	1,306	1,639	2,945	202	2,743
Consumer Loan	1,348	7,127	8,475	574	7,901
Equity	123,818	22,235	146,053	8,313	137,740
Mortgage	98,228	14,622	112,850	3,236	109,614
Micro and SME	74,035	7,063	81,098	851	80,246
Corporate	199,541	36,786	236,327	6,649	229,678
	498,276	**89,471**	**587,747**	**19,825**	**567,922**

Stage 2

1-Jan-18	Non past due	Past due	Total	Allowance	Total carrying amount
Credit cards and Overdrafts	797	3,648	4,446	155	4,290
Consumer Loan	6,263	9,866	16,129	1,238	14,891
Equity	190,172	34,034	224,207	26,853	197,354
Mortgage	380,231	14,734	394,966	10,329	384,636
Micro and SME	49,371	7,177	56,548	971	55,576
Corporate	176,821	27,096	203,917	4,675	199,242
	803,655	**96,556**	**900,212**	**44,222**	**855,990**

(all amounts in RON thousand unless otherwise stated)

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

33.1 Credit risk (continued)

Stage 3

31-Dec-18	**Non past due**	**Past due**	**Total**	**Allowance**	**Total carrying amount**
Credit cards and overdrafts	307	1,946	2,254	2,080	174
Consumer Loan	11,641	7,299	18,940	17,991	949
Equity	20,730	30,805	51,535	42,403	9,131
Mortgage	5,388	9,111	14,499	12,968	1,531
Micro and SME	13,269	26,009	39,278	11,967	27,311
Corporate	74,280	15,700	89,980	15,519	74,461
	125,616	**90,870**	**216,486**	**102,927**	**113,558**

Stage 3

1-Jan-18	**Non past due**	**Past due**	**Total**	**Allowance**	**Total carrying amount**
Credit cards and overdrafts	667	5,900	6,567	6,281	287
Consumer Loan	25,589	12,131	37,720	29,685	8,035
Equity	71,317	37,735	109,052	53,735	55,317
Mortgage	20,841	8,760	29,601	18,376	11,225
Micro and SME	26,020	30,955	56,974	21,316	35,658
Corporate	19,335	144,035	163,370	92,657	70,713
	163,768	**239,517**	**403,285**	**222,051**	**181,234**

(all amounts in RON thousand unless otherwise stated)

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

33.1 Credit risk (continued)

Net carrying amount of loans and receivables portfolio by stages and type of products (continued):

31-Dec-18	POCI Non past due	Past due	Total	Allowance	Total carrying amount
Credit cards and Overdrafts	-	-	-	-	-
Consumer Loan	1,258	394	1,652	1,332	320
Equity	9,524	6,111	15,635	7,530	8,105
Mortgage	726	682	1,408	853	555
Micro and SME	25	2,269	2,294	719	1,575
Corporate	-	-	-	-	-
	11,533	**9,456**	**20,989**	**10,435**	**10,555**

1-Jan-18	POCI Non past due	Past due	Total	Allowance	Total carrying amount
Credit cards and Overdrafts	5	-	5	5	-
Consumer Loan	1,509	223	1,733	1,265	468
Equity	14,499	10,020	24,520	11,946	12,574
Mortgage	2,220	599	2,819	1,142	1,676
Micro and SME	-	2,437	2,437	1,026	1,411
Corporate	-	2	2	1	1
	18,234	**13,282**	**31,516**	**15,385**	**16,131**

Total net carrying amount allocated to collaterals:

31-Dec-18	Total net amount at amortised cost	Value of collateral
Credit cards and Overdrafts	58,423	-
Consumer Loan	399,655	-
Equity	323,516	311,937
Mortgage	700,516	636,131
Micro and SME	845,626	816,017
Corporate	1,343,539	799,340
	3,671,276	**2,563,424**

1-Jan-18	Total net amount at amortised cost	Value of collateral
Credit cards and Overdrafts	63,050	-
Consumer Loan	405,631	-
Equity	420,911	345,688
Mortgage	674,721	552,289
Micro and SME	662,897	717,059
Corporate	1,178,987	769,076
Total	**3,406,196**	**2,384,112**

(all amounts in RON thousand unless otherwise stated)

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

33.1 Credit risk (continued)

Net carrying amount of loans and receivables by quality criteria is presented as follows:

	31 December 2018					
	Stage 1	Stage 2	Stage 3	POCI	Total as of December 31, 2018	Total as of December 31, 2017
Credit cards and Overdrafts						
Strong	17,513	-	-	-	17,513	21,502
Satisfactory	39,696	-	-	-	39,696	37,619
Watch list (higher risk)	-	2,945	-	-	2,945	4,446
Default	-	-	2,254	-	2,254	6,573
Total gross amount	**57,208**	**2,945**	**2,254**	**-**	**62,406**	**70,139**
Loss allowance	(1,702)	(202)	(2,080)	-	(3,983)	(7,089)
Total Carrying amount	**55,506**	**2,743**	**174**	**-**	**58,423**	**63,050**
Collateral held for credit impaired assets	-	-	-	-	-	-
Consumer Loan						
Strong	119,498	-	-	-	119,498	164,148
Satisfactory	276,964	-	-	-	276,964	220,897
Watch list (higher risk)	-	8,475	-	317	8,793	16,423
Default	-	-	18,940	1,335	20,275	39,159
Total gross amount	**396,462**	**8,475**	**18,940**	**1,652**	**425,530**	**440,627**
Loss allowance	(5,978)	(574)	(17,991)	(1,332)	(25,875)	(34,996)
Total Carrying amount	**390,485**	**7,901**	**949**	**320**	**399,655**	**405,631**
Collateral held for credit impaired assets	-	-	-	-	-	-
Equity						
Strong	99,192	-	-		99,192	95,854
Satisfactory	69,740	-	-		69,740	60,857
Watch list (higher risk)	-	146,053	-	4,607	150,660	229,459
Default	-	-	51,535	11,028	62,563	128,320
Total gross amount	**168,932**	**146,053**	**51,535**	**15,635**	**382,155**	**514,490**
Loss allowance	(392)	(8,313)	(42,403)	(7,530)	(58,639)	(93,579)
Total Carrying amount	**168,540**	**137,740**	**9,131**	**8,105**	**323,516**	**420,911**
Collateral held for credit impaired assets	195,770	76,007	28,827	11,334	311,937	345,688

(all amounts in RON thousand unless otherwise stated)

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

33.1 Credit risk (continued)

Net carrying amount of loans and receivables by quality criteria is presented as follows:

	31 December 2018					
	Stage 1	Stage 2	Stage 3	POCI	Total as of December 31, 2018	Total as of December 31, 2017
Mortgage						
Strong	457,241	-	-	-	457,241	196,247
Satisfactory	132,983	-	-	-	132,983	81,334
Watch list (higher risk)	-	112,850	-	483	113,333	395,933
Default	-	-	14,499	925	15,424	31,453
Total gross amount	**590,224**	**112,850**	**14,499**	**1,408**	**718,981**	**704,967**
Loss allowance	(1,408)	(3,236)	(12,968)	(853)	(18,465)	(30,246)
Carrying amount	**588,816**	**109,614**	**1,531**	**555**	**700,516**	**674,721**
Collateral held for credit impaired assets	572,646	56,125	6,573	787	636,131	552,289
Micro and SME						
Strong	350,104	-	-	-	350,104	302,145
Satisfactory	394,458	-	-	-	394,458	279,758
Watch list (higher risk)	-	81,098	-	-	81,098	56,548
Default	-	-	39,278	2,294	41,572	59,412
Total gross amount	**744,562**	**81,098**	**39,278**	**2,294**	**867,232**	**697,863**
Loss allowance	(8,068)	(851)	(11,967)	(719)	(21,605)	(34,966)
Carrying amount	**736,494**	**80,246**	**27,311**	**1,575**	**845,626**	**662,897**
Collateral held for credit impaired assets	650,932	86,903	76,344	1,839	816,017	717,059
Corporate						
Strong	403,169	-	-	-	403,169	441,091
Satisfactory	646,149	-	-	-	646,149	479,888
Watch list (higher risk)	-	236,327	-	-	236,327	203,917
Default	-	-	89,980	-	89,980	163,372
Total gross amount	**1,049,318**	**236,327**	**89,980**	**-**	**1,375,625**	**1,288,268**
Loss allowance	(9,918)	(6,649)	(15,519)	-	(32,086)	(109,281)
Carrying amount	**1,039,400**	**229,678**	**74,461**	**-**	**1,343,539**	**1,178,987**
Collateral held for credit impaired assets	485,447	206,092	107,800	-	799,340	769,076

(all amounts in RON thousand unless otherwise stated)

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

33.1 Credit risk (continued)

The net carrying amount of loans and receivables by type of product, ageing criteria and stages is presented as follows:

2018	Credit cards and Overdrafts				
	Stage 1	Stage 2	Stage 3	POCI	Total
Current	53,795	1,306	307	-	55,407
1-30 days	3,414	783	139	-	4,335
31-90 days	-	793	103	-	896
Over 90 days	-	63	1,705	-	1,768
Total	**57,208**	**2,945**	**2,254**	**-**	**62,406**
Value of collateral	-	-	-	-	-

2017	Credit cards and Overdrafts				
	Stage 1	Stage 2	Stage 3	POCI	Total
Current	55,478	797	667	5	56,948
1-30 days	3,643	371	64	-	4,077
31-90 days	-	3,271	5,754	-	9,025
Over 90 days	-	7	82	-	89
Total	**59,121**	**4,446**	**6,567**	**5**	**70,139**
Value of collateral	-	-	-	-	-

2018	Consumer Loans				
	Stage 1	Stage 2	Stage 3	POCI	Total
Current	376,233	1,348	11,641	1,258	390,480
1-30 days	20,230	1,592	1,441	255	23,518
31-90 days	-	5,527	613	138	6,278
Over 90 days	-	9	5,244	-	5,254
Total	**396,462**	**8,475**	**18,940**	**1,652**	**425,530**
Value of collateral	-	-	-	-	-

2017	Consumer Loans				
	Stage 1	Stage 2	Stage 3	POCI	Total
Current	370,101	6,263	25,589	1,509	403,463
1-30 days	14,943	3,187	5,028	144	23,303
31-90 days	-	6,679	3,816	79	10,574
Over 90 days	-	-	3,286	-	3,286
Total	**385,045**	**16,129**	**37,720**	**1,733**	**440,627**
Value of collateral	-	-	-	-	-

(all amounts in RON thousand unless otherwise stated)

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

33.1 Credit risk (continued)

Net carrying amount of loans and receivables by type of product, ageing criteria and stages is presented as follows:

2018	Equity Stage 1	Stage 2	Stage 3	POCI	Total
Current	160,905	123,818	20,730	9,524	314,978
1-30 days	8,027	6,458	3,083	1,993	19,561
31-90 days	-	15,777	6,784	309	22,870
Over 90 days	-	-	20,937	3,809	24,746
Total	**168,932**	**146,053**	**51,535**	**15,635**	**382,155**
Value of collateral	195,770	76,007	28,827	11,334	311,937

2017	Equity Stage 1	Stage 2	Stage 3	POCI	Total
Current	151,816	190,172	71,317	14,499	427,805
1-30 days	4,895	9,768	5,666	1,669	21,998
31-90 days	-	24,267	21,106	5,025	50,398
Over 90 days	-	-	10,964	3,326	14,290
Total	**156,711**	**224,207**	**109,052**	**24,520**	**514,490**
Value of collateral	177,836	103,375	52,867	11,610	345,688

2018	Mortgage Stage 1	Stage 2	Stage 3	POCI	Total
Current	583,522	98,228	5,388	726	687,864
1-30 days	6,703	5,051	1,001	-	12,755
31-90 days	-	9,570	1,316	-	10,886
Over 90 days	-	-	6,794	682	7,476
Total	**590,224**	**112,850**	**14,499**	**1,408**	**718,981**
Value of collateral	572,646	56,125	6,573	787	636,131

2017	Mortgage Stage 1	Stage 2	Stage 3	POCI	Total
Current	275,136	380,231	20,841	2,220	678,428
1-30 days	2,444	4,834	1,297	100	8,675
31-90 days	-	9,900	5,094	499	15,493
Over 90 days	-	-	2,370	-	2,370
Total	**277,581**	**394,966**	**29,601**	**2,819**	**704,967**
Value of collateral	264,594	275,325	11,134	1,236	552,289

(all amounts in RON thousand unless otherwise stated)

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

33.1 Credit risk (continued)

Net carrying amount of loans and receivables by type of product, ageing criteria and stages is presented as follows:

2018	Micro and SME				
	Stage 1	Stage 2	Stage 3	POCI	Total
Current	734,827	74,035	13,269	25	822,156
1-30 days	9,735	1,165	565	-	11,464
31-90 days	-	5,895	3,292	-	9,188
Over 90 days	-	3	22,152	2,269	24,424
Total	**744,562**	**81,098**	**39,278**	**2,294**	**867,232**
Value of collateral	650,932	86,903	76,344	1,839	816,017

2017	Micro and SME				
	Stage 1	Stage 2	Stage 3	POCI	Total
Current	577,461	49,371	26,020	-	652,852
1-30 days	4,442	2,037	210	-	6,689
31-90 days	-	5,129	8,491	-	13,620
Over 90 days	-	10	22,254	2,437	24,701
Total	**581,903**	**56,548**	**56,974**	**2,437**	**697,863**
Value of collateral	590,859	73,460	51,329	1,411	717,059

2018	Corporate				
	Stage 1	Stage 2	Stage 3	POCI	Total
Current	1,025,118	199,541	74,280	-	1,298,940
1-30 days	24,200	27,429	4,295	-	55,923
31-90 days	-	9,357	4,491	-	13,848
Over 90 days	-	-	6,915	-	6,915
Total	**1,049,318**	**236,327**	**89,980**	**-**	**1,375,625**
Value of collateral	485,447	206,092	107,800	-	799,340

2017	Corporate				
	Stage 1	Stage 2	Stage 3	POCI	Total
Current	919,680	176,821	19,335	-	1,115,836
1-30 days	1,298	11,139	907	-	13,344
31-90 days	-	15,958	14,478	-	30,435
Over 90 days	-	-	128,650	2	128,652
Total	**920,979**	**203,917**	**163,370**	**2**	**1,288,268**
Value of collateral	523,776	168,174	77,125	1	769,076

(all amounts in RON thousand unless otherwise stated)

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

33.1 Credit risk (continued)

Analysis by credit quality of loans neither past due nor impaired outstanding at 31 December 2017 is as follows:

31 December 2017

	Loans to individuals			Loans to corporate entities		
Grades	**Credit cards**	**Consumer/ personal loans**	**Mortgages**	**Small/ medium entities**	**Large corporate entities**	**Total loans and advances to customers**
Borrowers with credit history less than two years	2,243	140,184	98,462	390,695	6,978	638,562
Borrowers with credit history over two years	18,299	583,586	496,469	1,006,059	168,100	2,272,513
Total	**20,542**	**723,770**	**594,931**	**1,396,754**	**175,078**	**2,911,075**
Provision for impairment	119	28,852	7,513	1,907	32	38,423

Classification of the loans and advances past due but not impaired based on the type of client and number of days past due as at Dec 31, 2017:

	Loans to individuals			Loans to corporate entities		
Grades	**Credit cards**	**Consumer/ personal loans**	**Mortgages**	**Small/ medium entities**	**Large corporate entities**	**Total loans and advances to customers**
- less than 30 days overdue	4,796	105,225	59,302	99,610	4,503	273,436
- 30 to 90 days overdue	439	63,486	21,530	29,299	-	114,754
- 91 to 180 days overdue	192	489	-	177	-	858
- 181 to 360 days overdue	14	78	-	16	-	108
- over 360 days overdue	3	210	-	120	-	333
Total	**5,444**	**169,488**	**80,832**	**129,222**	**4,503**	**389,489**
Provision for impairment	412	30,532	5,533	1,965	-	38,442
Fair value of collateral	**-**	**113,074**	**78,455**	**115,560**	**270**	**307,359**

(all amounts in RON thousand unless otherwise stated)

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

33.1 Credit risk (continued)

Classification of the loans and advances individually impaired based on the type of client/loan and number of days past due as at December 31, 2017:

31 December 2017

	Loans to individuals	Loans to corporate entities				
Grades	**Credit cards**	**Consumer/ personal loans**	**Mortgages**	**Small/ medium entities**	**Large corporate entities**	**Total loans and advances to customers**
Past due 0-90 days	139	60,764	18,686	109,771	13,979	203,339
Past due 91-180 days	30	7,831	3,369	23,963	-	35,193
Past due >180 days	-	25,240	5,247	112,973	8,796	152,256
Impaired loans	169	93,835	27,302	246,707	22,775	390,788
Less: allowance for impairment	(33)	(46,032)	(12,489)	(96,833)	(8,701)	(164,088)
Net	**136**	**47,803**	**14,813**	**149,874**	**14,074**	**226,700**
Fair value of collateral	-	53,817	14,817	215,869	-	284,503

(all amounts in RON thousand unless otherwise stated)

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

33.1 Credit risk (continued)

Net carrying amount of loans and receivables by type of product, ageing criteria and stages is presented as follows:

31.12.2018	**Total amount of L&As**	**Total amount of forborne L&As**	**Forborne Loans and Advances (%)**
Stage 1	3,006,707	-	-
Stage 2	587,747	37,284	6%
Stage 3	216,486	71,968	33%
POCI	20,989	16,962	81%
Exposure before impairment	**3,831,929**	**126,214**	**3%**
Stage 1 Allowance	27,466	-	0%
Stage 2 Allowance	19,825	2,552	13%
Stage 3 Allowance	102,927	38,731	38%
POCI Allowance /FVA	10,435	8,776	84%
Total impairment	**160,653**	**50,059**	**31%**
Total Net Amount	**3,671,276**	**76,154**	**2%**
Value of collateral	2,563,424	126,184	5%

1/1/2018	**Total amount of L&As**	**Total amount of forborne L&As**	**Forborne Loans and Advances (%)**
Stage 1	2,381,340	2,713	0
Stage 2	900,212	5,654	1%
Stage 3	403,285	5,407	1%
POCI	31,516	608	2%
Exposure before impairment	**3,716,353**	**14,382**	**0%**
Stage 1 Allowance	28,499	7	0%
Stage 2 Allowance	44,222	259	1%
Stage 3 Allowance	222,051	3,736	2%
POCI Allowance /FVA	15,385	393	3%
Total impairment	**310,157**	**4,395**	**1,4%**
Total Net Amount	**3,406,196**	**9,987**	**0%**
Value of collateral	2,384,112	7,368	0%

(all amounts in RON thousand unless otherwise stated)

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

33.1 Credit risk (continued)

Changes in risk provision during 2018

	Credit cards and Overdrafts	Consumer Loan	Equity	Mortgage	Micro and SME	Corporate	Total
Balance at 1.1.2018	**7,089**	**34,996**	**93,579**	**30,246**	**34,966**	**109,281**	**310,156**
Net impairment (gain)/loss for the period	2,177	2,222	2,957	674	1,852	37,555	47,439
Translation differences	(48)	81	2,558	616	5	(192)	3,021
Derecognition of financial assets	5,679	(5,038)	(6,819)	(2,359)	(4,309)	(6,554)	(19,400)
Acquisition of loans	-	-	-	-	-	-	-
Bad debts written-off	(10,913)	(6,385)	(33,638)	(10,711)	(10,909)	(108,005)	(180,562)
Balance at 31.12.2018	**3,983**	**25,875**	**58,639**	**18,465**	**21,606**	**32,085**	**160,653**
Effect of correction of interest revenue on impaired loans	**(22)**	**(951)**	**390**	**120**	**1,890**	**(4,113)**	**(2,686)**

(all amounts in RON thousand unless otherwise stated)

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

33.1 Credit risk (continued)

The following table presents loans measured at amortized cost per IFRS 9 stage, as at 31.12.2018:

31 December 2018	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired loans (POCI)	Total
Credit Cards and Overdrafts					
Carrying amount (before impairment allowance)	57,208	2,945	2,254	-	62,406
Expected credit losses	1,702	202	2,080	-	3,983
Net carrying amount	55,506	2,743	174	-	58,423
Consumer Loans					
Carrying amount (before impairment allowance)	396,462	8,475	18,940	1,652	425,530
Expected credit losses	5,978	574	17,991	1,332	25,875
Net carrying amount	390,485	7,901	949	320	399,655
Equity					
Carrying amount (before impairment allowance)	168,932	146,053	51,535	15,635	382,155
Expected credit losses	392	8,313	42,403	7,530	58,639
Net carrying amount	168,540	137,740	9,131	8,105	323,516
Mortgage					
Carrying amount (before impairment allowance)	590,224	112,850	14,499	1,408	718,981
Expected credit losses	1,408	3,236	12,968	853	18,465
Net carrying amount	588,816	109,614	1,531	555	700,516
Micro and SME					
Carrying amount (before impairment allowance)	744,562	81,098	39,278	2,294	867,232
Expected credit losses	8,068	851	11,967	719	21,605
Net carrying amount	736,494	80,246	27,311	1,575	845,626
Corporate					
Carrying amount (before impairment allowance)	1,049,318	236,327	89,980	-	1,375,625
Expected credit losses	9,918	6,649	15,519	-	32,086
Net carrying amount	1,039,400	229,678	74,461	-	1,343,539

(all amounts in RON thousand unless otherwise stated)

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

33.1 Credit risk (continued)

The following table presents loans measured at amortized cost per IFRS 9 stage, as at 1 January 2018:

1 January 2018	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired loans (POCI)	Total
Credit Cards and Overdrafts					
Carrying amount (before impairment allowance)	59,121	4,446	6,567	5	70,139
Expected credit losses	648	155	6,281	5	7,089
Net carrying amount	58,473	4,290	287	-	63,050
Consumer Loans					
Carrying amount (before impairment allowance)	385,045	16,129	37,720	1,733	440,627
Expected credit losses	2,808	1,238	29,685	1,265	34,996
Net carrying amount	382,237	14,891	8,035	468	405,631
Equity					
Carrying amount (before impairment allowance)	156,711	224,207	109,052	24,520	514,490
Expected credit losses	1,045	26,853	53,735	11,946	93,579
Net carrying amount	155,667	197,354	55,317	12,574	420,911
Mortgage					
Carrying amount (before impairment allowance)	277,581	394,966	29,601	2,819	704,967
Expected credit losses	398	10,329	18,376	1,142	30,246
Net carrying amount	277,183	384,636	11,225	1,676	674,721
Micro and SME					
Carrying amount (before impairment allowance)	581,903	56,548	56,974	2,437	697,863
Expected credit losses	11,652	971	21,316	1,026	34,966
Net carrying amount	570,251	55,576	35,658	1,411	662,897
Corporate					
Carrying amount (before impairment allowance)	920,979	203,917	163,370	2	1,288,268
Expected credit losses	11,948	4,675	92,657	1	109,281
Net carrying amount	909,030	199,242	70,713	1	1,178,987

(all amounts in RON thousand unless otherwise stated)

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

33.1 Credit risk (continued)

Movement in risk provisions by type of product during 2018.

Credit Cards and Overdrafts	**Stage 1**	**Stage 2**	**Stage 3**	**POCI (*)**
Balance 01.01.2018	**648**	**155**	**6,281**	**5**
Transfer to stage 1 (from 2 or 3)	111	(34)	(77)	-
Transfer to stage 2 (from 1 or 3)	(35)	79	(44)	-
Transfer to stage 3 (from 1 or 2)	(13)	(12)	24	-
Impact from remeasurement at transfer to stages	(86)	72	1,835	
Net remeasurement of loss allowance (a)	(22)	105	1,738	-
Impairment losses on new assets (b)	308	16	46	-
Changes in models/risk parameters (c)	5	-	(20)	-
Net impact from (repayments) / write-off of loans (d)	667	3,227	1,783	1
Unwinding of interest (e)	-	-	22	-
Impairment losses on loans (a+b+c+d+e)	959	3,349	3,569	1
Write-offs and sales	(756)	(3,303)	(6,848)	(6)
Unwinding of interest	-	-	(22)	-
Foreign exchange differences and other movements	852	-	(900)	-
Balance 31.12.2018	**1,702**	**202**	**2,080**	**-**

Consumer Loan	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**
Balance 01.01.2018	**2,808**	**1,238**	**29,685**	**1,265**
Transfer to stage 1 (from 2 or 3)	278	(167)	(111)	-
Transfer to stage 2 (from 1 or 3)	(84)	437	(354)	-
Transfer to stage 3 (from 1 or 2)	(46)	(170)	216	-
Impact from remeasurement at transfer to stages	(254)	(134)	3,373	-
Net remeasurement of loss allowance (a)	(106)	(33)	3,125	-
Impairment losses on new assets (b)	5,055	122	858	2
Changes in models/risk parameters (c)	(986)	(160)	(5,419)	(235)
Net impact from (repayments) / write-off of loans (d)	(641)	(18)	(4,231)	(146)
Unwinding of interest (e)	-	-	951	-
Impairment losses on loans (a+b+c+d+e)	3,321	(89)	(4,717)	(379)
Write-offs and sales	(152)	(579)	(5,578)	(77)
Unwinding of interest	-	-	(951)	-
Foreign exchange differences and other movements	-	5	(448)	524
Balance 31.12.2018	**5,978**	**574**	**17,991**	**1,332**

(*) "POCI" i.e. purchased or originated credit impaired loans

(all amounts in RON thousand unless otherwise stated)

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

33.1 Credit risk (continued)

Movement in risk provisions by type of product during 2018.

Equity	**Stage 1**	**Stage 2**	**Stage 3**	**POCI (*)**
Balance 1.1.2018	**1,045**	**26,853**	**53,735**	**11,946**
Transfer to stage 1 (from 2 or 3)	2,646	(2,566)	(81)	-
Transfer to stage 2 (from 1 or 3)	(36)	2,385	(2,349)	-
Transfer to stage 3 (from 1 or 2)	-	(270)	270	-
Impact from remeasurement at transfer to stages	(2,476)	(1,927)	1,745	-
Net remeasurement of loss allowance (a)	134	(2,378)	(414)	-
Impairment losses on new assets (b)	66	777	1,841	1,053
Changes in models/risk parameters (c)	(446)	(8,964)	10,062	1,226
Net impact from (repayments) / write-off of loans (d)	4	(598)	(5,887)	(338)
Unwinding of interest (e)	-	-	(390)	-
Impairment losses on loans (a+b+c+d+e)	(241)	(11,163)	5,212	1,941
Write-offs and sales	(430)	(7,684)	(18,785)	(6,738)
Unwinding of interest	-	-	390	-
Foreign exchange differences and other movements	18	308	1,851	382
Balance 31.12.2018	**392**	**8,313**	**42,403**	**7,530**

Mortgage	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**
Balance 1.1.2018	**398**	**10,329**	**18,376**	**1,142**
Transfer to stage 1 (from 2 or 3)	1,517	(1,465)	(52)	-
Transfer to stage 2 (from 1 or 3)	(42)	130	(88)	-
Transfer to stage 3 (from 1 or 2)	-	(158)	158	-
Impact from remeasurement at transfer to stages	(1,308)	(17)	744	-
Net remeasurement of loss allowance (a)	167	(1,510)	762	-
Impairment losses on new assets (b)	81	252	671	224
Changes in models/risk parameters (c)	849	(3,957)	2,920	215
Net impact from (repayments) / write-off of loans (d)	4	120	(2,502)	18
Unwinding of interest (e)	-	-	(120)	-
Impairment losses on loans (a+b+c+d+e)	1,102	(5,094)	1,731	457
Write-offs and sales	(95)	(2,241)	(7,671)	(705)
Unwinding of interest	-	-	120	-
Foreign exchange differences and other movements	4	241	412	(41)
Balance 31.12.2018	**1,408**	**3,236**	**12,968**	**853**

(*) "POCI" i.e. purchased or originated credit impaired loans

(all amounts in RON thousand unless otherwise stated)

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

33.1 Credit risk (continued)

Movement in risk provisions by type of product during 2018.

Micro and SME	Stage 1	Stage 2	Stage 3	POCI (*)
Balance 1.1.2018	**11,652**	**971**	**21,316**	**1,026**
Transfer to stage 1 (from 2 or 3)	595	(419)	(176)	-
Transfer to stage 2 (from 1 or 3)	(526)	526	-	-
Transfer to stage 3 (from 1 or 2)	(1,578)	(67)	1,644	-
Impact from remeasurement at transfer to stages	(447)	(262)	1,840	
Net remeasurement of loss allowance (a)	(1,956)	(222)	3,308	-
Impairment losses on new assets (b)	5,875	441	1,995	-
Changes in models/risk parameters (c)	(5,575)	(81)	(1,873)	(60)
Net impact from (repayments) / write-off of loans (d)	(1,499)	(72)	(2,721)	(18)
Unwinding of interest (e)	-	-	(1,890)	
Impairment losses on loans (a+b+c+d+e)	(3,155)	66	(1,180)	(78)
Write-offs and sales	(434)	(188)	(10,058)	(229)
Unwinding of interest	-	-	1,890	-
Foreign exchange differences and other movements	5	2	(1)	-
Balance 31.12.2018	**8,069**	**851**	**11,967**	**719**

Corporate	Stage 1	Stage 2	Stage 3	POCI (*)
Balance 1.1.2018	**11,948**	**4,675**	**92,657**	**1**
Transfer to stage 1 (from 2 or 3)	202	(202)	-	-
Transfer to stage 2 (from 1 or 3)	(1,135)	1,135	-	-
Transfer to stage 3 (from 1 or 2)	-	(2,591)	2,591	-
Impact from remeasurement at transfer to stages	(110)	1,006	19,356	-
Net remeasurement of loss allowance (a)	(1,043)	(653)	21,947	-
Impairment losses on new assets (b)	5,680	4,477	9,496	-
Changes in models/risk parameters (c)	(1,838)	(157)	(353)	-
Net impact from (repayments) / write-off of loans (d)	(4,860)	(1,668)	(24)	(1)
Unwinding of interest (e)	-	-	4,113	-
Impairment losses on loans (a+b+c+d+e)	(2,061)	1,999	35,179	(1)
Write-offs and sales	-	-	(108,005)	-
Unwinding of interest	-	-	(4,113)	-
Foreign exchange differences and other movements	31	(25)	(198)	-
Balance 31.12.2018	**9,917**	**6,649**	**15,519**	**-**

(*) "POCI" i.e. purchased or originated credit impaired loans

(all amounts in RON thousand unless otherwise stated)

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

33.1 Credit risk (continued)

Movement in risk provisions for loans and receivables during 2018.

	Stage 1	Stage 2	Stage 3	POCI (*)	Total
Balance 1.1.2018	**28,499**	**44,222**	**222,051**	**15,385**	**310,156**
Transfer to stage 1 (from 2 or 3)	5,349	(4,852)	(497)	-	-
Transfer to stage 2 (from 1 or 3)	(1,857)	4,691	(2,834)	-	-
Transfer to stage 3 (from 1 or 2)	(1,637)	(3,268)	4,904	-	-
Impact from remeasurement at transfer to stages	(4,680)	(1,262)	28,893	-	22,951
Net remeasurement of loss allowance (a)	(2,825)	(4,690)	30,466	-	22,951
Impairment losses on new assets (b)	17,065	6,085	14,906	1,278	39,334
Changes in models/risk parameters (c)	(7,991)	(13,318)	5,317	1,146	(14,846)
Net impact from (repayments) / write-off of loans (d)	(6,324)	991	(13,583)	(483)	(19,400)
Unwinding of interest (e)	-	-	2,686	-	2,686
Impairment losses on loans (a+b+c+d+e)	(75)	(10,933)	39,793	1,940	30,725
Write-offs and sales	(1,868)	(13,994)	(156,946)	(7,755)	(180,562)
Unwinding of interest	-	-	(2,686)	-	(2,686)
Foreign exchange differences and other movements	910	531	716	864	3,021
Balance 31.12.2018	**27,466**	**19,825**	**102,927**	**10,435**	**160,653**

Below is presented the reconciliation between credit risk incurred by the Bank and total amounts presented in Statement of Comprehensive Income

	Amounts ths RON
Impairment losses on loans	(30,725)
Recoveries of written off loans	38,173
Gain on sales of portfolio	13,818
Total release	**21,266**

Off balance	Stage 1	Stage 2	Stage 3	POCI (*)
Balance 1.1.2018	**1,194**	**526**	**891**	**-**
Transfer to stage 1 (from 2 or 3)	101	(40)	(60)	-
Transfer to stage 2 (from 1 or 3)	(3)	12	(9)	-
Transfer to stage 3 (from 1 or 2)	(2)	(65)	67	-
Impact from remeasurement at transfer to stages	(74)	(5)	248	
Net remeasurement of loss allowance (a)	21	(99)	246	-
Impairment losses on new assets (b)	1,417	38	1,048	-
Changes in models/risk parameters (c)	(154)	(33)	663	-
Derecognition of commitments (d)	(693)	(379)	(73)	-
Impairment losses (a+b+c+d)	591	(472)	1,884	-
Write-offs and sales	-	-	-	-
Foreign exchange differences and other movements	-	-	4	-
Balance 31.12.2018	**1,786**	**54**	**2,779**	**-**

(*) "POCI" i.e. purchased or originated credit impaired loans

(all amounts in RON thousand unless otherwise stated)

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

33.1 Credit risk (continued)

Movements in the provision for loan impairment during 2017 are as follows:

	Large corporate entities	Small medium entities	Mortgages	Consumer/ personal loans	Credit cards	Total
Provision for loan impairment at 1 January 2017	**42,557**	**57,291**	**26,334**	**125,453**	**624**	**252,259**
Impairment loss during the year	5,639	45,418	8,283	42,248	712	102,300
Reversal of impairment allowances	(2,258)	(26,403)	(6,454)	(35,790)	(214)	(71,119)
Amounts written off during the year as uncollectible	(2)	(13,004)	(1,530)	(22,296)	(604)	(37,436)
Loans sold	-	-	-	-	-	-
Foreign currency exchange effect	300	(99)	(1,097)	(4,155)	-	(5,051)
Provision for loan impairment at 31 December 2017	**46,236**	**63,203**	**25,536**	**105,460**	**518**	**240,953**

The formation of impairment charge is presented below as at December 31, 2017:

As at December 31, 2017	Large corporate entities	Small medium entities	Mortgages	Consumer/ personal loans	Credit cards	Total
Impairment loss during the year	(5,639)	(45,418)	(8,283)	(42,248)	(712)	(102,300)
Reversal of impairment allowances	2,258	26,403	6,454	35,790	214	71,119
Recoveries of amounts previously written-off	-	6,026	194	34,974	1,024	42,218
Provision for loan impairment	**(3,381)**	**(12,989)**	**(1,635)**	**28,516**	**526**	**11,037**

(all amounts in RON thousand unless otherwise stated)

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

33.1 Credit risk (continued)

Movement in gross balance by type of products during the year 2018

Credit cards and Overdrafts	**Stage 1**	**Stage 2**	**Stage 3**	**POCI (*)**
Gross balance 1.1.2018	**59,121**	**4,446**	**6,567**	**5**
Transfer to stage 1 (from 2 or 3)	680	(596)	(83)	-
Transfer to stage 2 (from 1 or 3)	(2,140)	2,187	(46)	-
Transfer to stage 3 (from 1 or 2)	(714)	(413)	1,127	-
New financial assets originated or purchased	6,004	171	53	-
Derecognition of financial assets	(5,580)	(135)	(102)	-
Foreign exchange and other changes that did not result in derecognition	508	29	873	
Write-offs and sales	(670)	(2,743)	(6,135)	(5)
Balance 31.12.2018	**57,208**	**2,945**	**2,254**	**-**

Consumer Loan	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**
Gross balance 1.1.2018	**385,045**	**16,129**	**37,720**	**1,733**
Transfer to stage 1 (from 2 or 3)	3,137	(2,989)	(148)	-
Transfer to stage 2 (from 1 or 3)	(5,790)	6,261	(471)	-
Transfer to stage 3 (from 1 or 2)	(3,003)	(2,221)	5,223	-
New financial assets originated or purchased	210,443	1,572	886	2
Derecognition of financial assets	(126,107)	(4,566)	(3,441)	(150)
Foreign exchange and other changes that did not result in derecognition	(65,377)	(2,861)	(7,170)	417
Write-offs and sales	(1,886)	(2,850)	(13,659)	(349)
Balance 31.12.2018	**396,462**	**8,475**	**18,940**	**1,652**

(*) "POCI" i.e. purchased or originated credit impaired loans

(all amounts in RON thousand unless otherwise stated)

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

33.1 Credit risk (continued)

Movement in gross balance by type of products during the year 2018

Equity

	Stage 1	Stage 2	Stage 3	POCI (*)
Gross balance 1.1.2018	**156,711**	**224,207**	**109,052**	**24,520**
Transfer to stage 1 (from 2 or 3)	40,494	(40,184)	(310)	-
Transfer to stage 2 (from 1 or 3)	(5,386)	10,150	(4,764)	-
Transfer to stage 3 (from 1 or 2)	(47)	(2,425)	2,472	-
New financial assets originated or purchased	7,523	5,145	1,742	2,524
Derecognition of financial assets	(12,121)	(5,957)	(6,292)	(611)
Foreign exchange and other changes that did not result in derecognition	(12,502)	(3,272)	(1,992)	2,049
Write-offs and sales	(5,740)	(41,611)	(48,374)	(12,847)
Balance 31.12.2018	**168,932**	**146,053**	**51,535**	**15,635**

Mortgage

	Stage 1	Stage 2	Stage 3	POCI (*)
Gross balance 1.1.2018	**277,581**	**394,966**	**29,601**	**2,819**
Transfer to stage 1 (from 2 or 3)	272,955	(272,790)	(166)	-
Transfer to stage 2 (from 1 or 3)	(10,899)	11,172	(274)	-
Transfer to stage 3 (from 1 or 2)	-	(1,212)	1,212	-
New financial assets originated or purchased	96,387	5,111	783	243
Derecognition of financial assets	(17,832)	(9,592)	(2,243)	-
Foreign exchange and other changes that did not result in derecognition	(26,032)	(1,738)	(13)	(128)
Write-offs and sales	(1,937)	(13,068)	(14,402)	(1,526)
Balance 31.12.2018	**590,224**	**112,850**	**14,499**	**1,408**

(*) "POCI" i.e. purchased or originated credit impaired loans

(all amounts in RON thousand unless otherwise stated)

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

33.1 Credit risk (continued)

Movement in gross balance by type of products during the year 2018

Micro and SME

	Stage 1	Stage 2	Stage 3	POCI (*)
Gross balance 1.1.2018	**581,903**	**56,548**	**56,974**	**2,437**
Transfer to stage 1 (from 2 or 3)	24,794	(24,598)	(196)	-
Transfer to stage 2 (from 1 or 3)	(43,960)	43,960	-	-
Transfer to stage 3 (from 1 or 2)	(15,508)	(2,413)	17,920	-
New financial assets originated or purchased	401,573	25,616	9,923	138
Derecognition of financial assets	(202,692)	(12,557)	(12,483)	-
Foreign exchange and other changes that did not result in derecognition	(46)	(5,228)	(4,741)	90
Write-offs and sales	(1,342)	(229)	(28,119)	(371)
Balance 31.12.2018	**744,722**	**81,098**	**39,278**	**2,294**

Corporate

	Stage 1	Stage 2	Stage 3	POCI (*)
Gross balance 1.1.2018	**920,979**	**203,917**	**163,370**	**2**
Transfer to stage 1 (from 2 or 3)	21,296	(21,296)	-	-
Transfer to stage 2 (from 1 or 3)	(135,521)	135,521	-	-
Transfer to stage 3 (from 1 or 2)	-	(26,287)	26,287	-
New financial assets originated or purchased	521,776	92,750	40,985	-
Derecognition of financial assets	(333,595)	(131,994)	(24,341)	(2)
Foreign exchange and other changes that did not result in derecognition	54,223	(16,283)	(7,163)	
Write-offs and sales	-	-	(109,159)	-
Balance 31.12.2018	**1,049,158**	**236,327**	**89,980**	**-**

(*) "POCI" i.e. purchased or originated credit impaired loans

(all amounts in RON thousand unless otherwise stated)

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

33.1 Credit risk (continued)

Movement in gross balance by type of products during the year 2018

	Stage 1	Stage 2	Stage 3	POCI (*)	Total
Gross balance 1.1.2018	**2,381,340**	**900,212**	**403,285**	**31,516**	**3,716,353**
Transfer to stage 1 (from 2 or 3)	363,356	(362,453)	(903)	-	-
Transfer to stage 2 (from 1 or 3)	(203,695)	209,251	(5,555)	-	-
Transfer to stage 3 (from 1 or 2)	(19,272)	(34,971)	54,243	-	-
New financial assets originated or purchased	1,243,707	130,365	54,371	2,907	1,431,351
Derecognition of financial assets	(697,927)	(164,801)	(48,903)	(763)	(912,394)
Foreign exchange and other changes that did not result in derecognition	(49,226)	(29,354)	(20,206)	2,427	(96,358)
Write-offs and sales	(11,575)	(60,502)	(219,847)	(15,098)	(307,023)
Balance 31.12.2018	**3,006,707**	**587,747**	**216,486**	**20,989**	**3,831,929**
Accumulated allowance for impairment losses	27,466	19,825	102,927	10,435	160,653
Balance 31.12.2018	**2,979,241**	**567,922**	**113,558**	**10,555**	**3,671,276**

Off balance	Stage 1	Stage 2	Stage 3	POCI (*)
Gross balance 1.1.2018	**615,750**	**86,279**	**28,831**	**-**
Transfer to stage 1 (from 2 or 3)	12,698	(9,754)	(2,945)	-
Transfer to stage 2 (from 1 or 3)	(14,937)	14,956	(18)	-
Transfer to stage 3 (from 1 or 2)	(329)	(5,775)	6,104	-
New financial assets originated or purchased	381,010	107,457	6,203	-
Derecognition of financial assets	(231,687)	(61,225)	(23,849)	-
Foreign exchange and other changes that did not result in derecognition	1,955	22,543	5,177	
Write-offs and sales	(68)	(51)	(14)	-
Balance 31.12.2018	**764,392**	**154,430**	**19,490**	**-**
Accumulated allowance for impairment losses	**1,786**	**54**	**2,779**	**-**
Balance 31.12.2018	**762,606**	**154,376**	**16,711**	

(*) "POCI" i.e. purchased or originated credit impaired loans

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

33.2 Market risk

Market risk is the risk of incurring on-balance and off-balance sheet losses due to adverse market movements in prices (such as, for example, the share prices, the interest rates and the foreign-exchange rates).

The Bank has clearly defined policies and procedures in order to ensure active market risk management. The Bank has the appropriate systems in order to measure and assess market risk while keeping up with current regulatory and banking environment challenges.

The Bank applied generally accepted techniques for the measurement of market risk, such as Sensitivity Indicators and GAP analysis and VaR (Value-at-Risk) measures.

Sensitivity calculation parameters

Interest Rate Sensitivity: calculation is based on IR Gap report equivalent duration measures and translated in potential impact on capital. Based on the last year interest rate fluctuation and Treasury Division forecasts analysis the interest rate can vary between 100 ± bps.

FX Rates Sensitivity: calculations based on open foreign currency positions.

33.3 Currency risk

The Bank is exposed to the effects of fluctuations in the main foreign currency exchange rates on its financial position and cash flows. The Bank sets limits on the level of exposure by currency and for both overnight and intra-day positions, which are monitored daily.

The Bank traded with the Parent Bank swap transactions in order to hedge the balance sheet mismatches in different currencies (RON and EUR), although not using hedge accounting. All transactions were performed strictly for liquidity purposes and not for trading. Excess liquidity in one currency was converted into the currency that was in deficit.

Regarding the foreign exchange rate risk, the Bank has established a limit system monitored on a daily basis by the Risk Management Department. The limit scheme includes:

- an intraday net aggregate position limit;
- an intraday position limit for each authorized currency;
- an overnight net aggregate position limit;
- an overnight position limit for each authorized currency;
- a daily loss notification & stop loss limit;
- a monthly loss notification & stop loss limit.

In order to quantify the foreign exchange risk the Bank uses a VaR methodology. The Value-at-Risk (VaR) measure represents an estimation of the potential maximum loss for a pre-specified time horizon with a given statistical confidence level. These two VaR parameters are chosen as 10 days - time horizon and 99% - confidence level.

According to VaR (Value-at-Risk) risk indicator, as of December 2018, the maximum loss for a time horizon of 10 days due to exchange rate volatility is of € 0.11 m under normal conditions and € 0.17 m under stress conditions.

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

33.3 Currency risk (continued)

Sensitivity analysis

All amounts in RON thousand.

	Effect on profit or loss 31 December 2018	Effect on profit or loss 31 December 2017
RON	+16,009/-16,009	+15,262/-15,262
EUR	+8,295/-8,295	+8,226/-8,226
USD	+429/-429	+295/-295
CHF	+2,926/-2,926	+4,398/-4,398
TOTAL Interest rate (± 100 b.p.)	**+27,660/-27,660**	**+28,181/-28,181**

	Effect on Other comprehensive income 31 December 2018	Effect on Other comprehensive income 31 December 2017
Effect on FVTOCI/ available for sale financial instruments in EUR - Interest rate (± 100 b.p.)	+34,322/-34,322	+19,296/-19,296

	Effect on profit or loss 31 December 2018	Effect on profit or loss 31 December 2017
EUR	+28,537/-28,537	+187,802/-187,802
USD	-13,552/+13,552	-29,751/+29,751
CHF	+45,707/-45,707	+68,874/-68,874
OTH	-2,422/+2,422	+191/-191
TOTAL Foreign exchange (± 20%)	**+58,270/-58,270**	**+227,116/-227,116**

At 31 December 2018, if market interest rates had been 100 basis points higher and with all other variables held constant, the net profit for the year would have been RON 27,660 thousand higher (2017: RON 28,181 thousand higher).

At 31 December 2018, if RON had weakened by 20% against other relevant currencies (all other variables held constant) net profit for the year would have been RON 58,270 thousand higher (2017: RON 227,116 thousand higher). The majority of assets and liabilities in foreign currencies are in EUR.

(all amounts in RON thousand unless otherwise stated)

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

33.3 Currency risk (continued)

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by currency.

31 December 2018	RON	EUR	USD	CHF	Other	Total
Cash and balances with Central Bank	471,084	327,452	13,042	5,638	4,753	821,969
Loans and advances to the banks	11,325	112,526	69,829	874	6,149	200,703
Loans and advances to customers, net of provisions	2,250,054	1,120,939	50,522	249,758	3	3,671,276
Derivative Assets	1,820	-	-	-	-	1,820
Financial assets FVTPL	-	-	-	-	2,359	2,359
Trading and available for sale securities	935,106	466,840	28,883	-	-	1,430,829
Repurchase receivables	106,451	211,016	-	-	-	317,467
Other financial assets	12,422	1,955	13	170	10	14,570
Total assets	**3,788,262**	**2,240,728**	**162,289**	**256,440**	**13,274**	**6,460,993**

31 December 2018	RON	EUR	USD	CHF	Other	Total
Due to other banks	402,067	207,151	2,004	7,918	1,404	620,544
Deposits due to customers	3,161,767	1,701,858	227,704	19,968	21,606	5,132,903
Derivative liabilities	1,420	17	-	-	-	1,437
Financial liabilities at FVTPL	-	-	-	-	2,357	2,357
Subordinated debts	-	186,678	-	-	-	186,678
Other financial liabilities	49,765	4,170	458	25	15	54,433
Total liabilities	**3,615,019**	**2,099,874**	**230,166**	**27,911**	**25,382**	**5,998,352**
Net on balance sheet position	**173,245**	**140,854**	**(67,877)**	**228,529**	**(12,109)**	**462,642**
Net off balance sheet position	276,211	(135,959)	67,898	(225,805)	16,061	(1,594)
Net currency position	**449,456**	**4,895**	**21**	**2,724**	**3,952**	**461,048**

(all amounts in RON thousand unless otherwise stated)

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

33.3 Currency risk (continued)

31 December 2017	RON	EUR	USD	CHF	Other	Total
Cash and balances with Central Bank	492,674	486,781	10,887	13,435	6,981	1,010,758
Loans and advances to the banks	3,967	403,544	44,103	1,609	4,801	458,024
Loans and advances to customers, net of provisions	1,844,538	1,203,049	42,579	360,212	21	3,450,399
Derivative Assets	912	22	-	-	-	934
Financial assets FVTPL	-	-	-	-	2,269	2,269
Trading and available for sale securities	488,210	482,617	-	-	-	970,827
Repurchase receivables	151,338	225,892	-	-	-	377,230
Other financial assets	6,182	3,263	3	151	11	9,610
Total assets	**2,987,821**	**2,805,168**	**97,572**	**375,407**	**14,083**	**6,280,051**

31 December 2017	RON	EUR	USD	CHF	Other	Total
Due to other banks	590,359	355,487	19,386	13,708	1,253	980,193
Customer Accounts	2,841,840	1,251,726	226,726	17,245	9,604	4,347,141
Derivative liabilities	6,189	22	-	-	-	6,211
Financial liabilities FVTPL	-	-	-	-	2,268	2,268
Subordinated debts	-	256,344	-	-	-	256,344
Other financial liabilities	47,312	2,675	226	100	4	50,317
Total liabilities	**3,485,700**	**1,866,254**	**246,338**	**31,053**	**13,129**	**5,642,474**
Net on balance sheet position	**(497,877)**	**938,913**	**(148,766)**	**344,354**	**953**	**637,577**
Net off balance sheet position	1,145,891	(941,993)	149,049	(339,135)	2,665	16,477
Net currency position	**648,014**	**(3,080)**	**283**	**5,219**	**3,618**	**654,054**

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

33.4 Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank is exposed to the effects of market fluctuations of the main interest rates on both its fair value and cash flow. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Bank sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily.

The Bank quantifies and monitors the interest rate risk by calculating a set of risk measures such as: PV01 for bonds portfolio classified as FVOCI, PV100, PV100 for on and off Balance Sheet, Earning at Risk (EaR) and Duration Gap (DGap) for Banking book portfolio.

PV01 is a sensitivity coefficient that quantifies the market value variation of a financial instrument due to a small change of interest rates by one basis point. First Bank uses it to measure the interest rate risk of the bond portfolio. In order to control this risk the bank has established a boundary level for the portfolio's PV01 that is monitored within the limit system.

In addition to the risk measures, the Risk Management Department also monitors a set of limits imposed internally to its bond portfolio. These limits refer to the maximum open position by currency, the maximum maturity, and sensitivity (portfolio's modified duration) and also daily and monthly stop loss notifications.

PV100 is a sensitivity coefficient that measures the impact of a parallel shift of the yield curves by 100 bps on the present value of the bank's assets and liabilities, for both Trading and Banking book. As of Dec'18, PV100 was at the level of € 6.96m, well within the internal limit of € 10m.

EaR (Earning at Risk) shows the effect of interest rate changes on net interest income (over one year) both on Trading and Banking book. As of Dec'18, EaR was calculated at €1.17m, representing 26% internal limit usage (with nominal value of €4.5m).

DGap (Duration GAP) – measures the potential change of the economic value of the bank due to interest rates fluctuations (200bps). As of Dec'18, the potential loss was of €12.4m, representing 7.72% of Own Funds, compared with 20% of Own funds limit established by Central Bank.

The table below summarises the Bank's exposure to interest rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

(all amounts in RON thousand unless otherwise stated)

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

33.4 Interest rate risk (continued)

At 31 December 2018	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest Bearing (*)	Total
Assets							
Cash and balances with Central Bank	642,598	-	-	-	-	179,371	821,969
Due from other banks	194,737	-	-	-	-	5,966	200,703
Loans and advances to customers	871,179	2,068,627	543,863	153,019	23,933	10,655	3,671,276
Derivative financial assets	-	-	-	-	-	1,820	1,820
Other financial assets at fair value through profit or loss	-	-	-	-	-	2,359	2,359
Financial assets at fair value through other comprehensive income - Debt securities	-	20,080	317,599	1,048,252	23,661	21,237	1,430,829
Repurchase receivables	-	-	104,675	104,442	103,618	4,732	317,467
Other financial assets	-	-	-	-	-	14,570	14,570
Total financial assets	**1,708,514**	**2,088,707**	**966,137**	**1,305,713**	**151,212**	**240,710**	**6,460,993**
Liabilities							
Due to other banks	609,515	-	-	-	-	11,029	620,544
Deposits due to customers	2,757,775	838,212	1,435,843	89,367	7,245	4,461	5,132,903
Derivate financial liabilities	-	-	-	-	-	1,437	1,437
Subordinated debts	-	186,678	-	-	-	-	186,678
Other financial liabilities	-	-	-	-	-	54,433	54,433
Total financial liabilities	**3,367,290**	**1,024,890**	**1,435,843**	**89,367**	**7,245**	**71,360**	**5,995,995**
Total interest rate gap	**(1,658,776)**	**1,063,818**	**(469,706)**	**1,216,346**	**143,967**	**169,350**	**464,998**

(*) The value includes exposures to clients in insolvency or bankruptcy for which, according to law, nominal interest is not charged any longer.

(all amounts in RON thousand unless otherwise stated)

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

33.4 Interest rate risk (continued)

At 31 December 2017	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest Bearing (*)	Total
Assets							
Cash and balances with Central Bank	828,388	-	-	-	-	182,370	1,010,758
Due from other banks	450,067	-	-	-	-	7,957	458,024
Loans and advances to customers	991,060	1,861,279	459,328	66,373	49,927	22,432	3,450,399
Derivative financial assets	-	-	-	-	-	934	934
Other financial assets at fair value through profit or loss	-	-	-	-	-	2,269	2,269
Trading and available for sale securities	-	39,832	107,805	801,480	-	21,710	970,827
Repurchase receivables	-	-	30,816	339,355	-	7,059	377,230
Other financial assets	-	-	-	-	-	9,610	9,610
Total financial assets	**2,269,515**	**1,901,111**	**597,949**	**1,207,208**	**49,927**	**254,341**	**6,280,051**
Liabilities							
Due to other banks	923,494	24,240	-	-	-	32,459	980,193
Deposits due to customers	2,016,248	1,086,424	1,184,989	44,977	10,447	4,056	4,347,141
Derivate financial liabilities	-	-	-	-	-	6,211	6,211
Subordinated debts	-	256,344	-	-	-	-	256,344
Other financial liabilities	-	-	-	-	-	50,317	50,317
Total financial liabilities	**2,939,742**	**1,367,008**	**1,184,989**	**44,977**	**10,447**	**93,043**	**5,640,206**
Total interest rate gap	**(670,227)**	**534,103**	**(587,040)**	**1,162,231**	**39,480**	**161,298**	**639,845**

(*) The value includes exposures to clients in insolvency or bankruptcy for which, according to law, nominal interest is not charged any longer.

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

33.5 Liquidity risk

Liquidity risk is the current or future risk of negative impact on profits and capital, determined by the Banks inability to meet its obligations when they become due. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw-downs and guarantees. The Bank does not maintain cash resources to meet all of these needs, as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty.

The Bank sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The liquidity risk is also monitored as per Central Bank's regulatory framework and the reported liquidity indicators were in compliance with NBR requirements as of 31 December 2018 as follows:

- Liquidity indicator 2.3 while the limit set up by the Central Bank is of 1;
- LCR 1M – 1.42 well above the limit of 1 set up by the central Bank;
- NSFR 1Y – 1.53 compared with limit of 1;
- Quick liquidity - 44.59%, above the internal limit of 27%;
- Net interbank liabilities - 16.1m compared with internal limit of <300m.

The Bank's liquidity management process, as carried out within the Bank and monitored by a team from Treasury and Financial Markets Division and Risk Management Department includes:

- Day-to-day funding, managed by monitoring future cash flows in various currencies and in total to ensure that requirements can be met. These include replenishment of funds as they mature or are borrowed by customers. The Bank maintains an active presence in global money markets to enable this to happen;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring balance sheet liquidity ratios against internal and regulatory requirements;
- Performing periodic stress tests on liquidity;
- Establishing funding plans to be applied in case of a liquidity crisis and testing them periodically;
- Monitoring the cost of funds of the bank and the factors that lead to it decreasing/increasing; and
- Managing the concentration and profile of debt maturities.

(all amounts in RON thousand unless otherwise stated)

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

33.6 Liquidity risk (continued)

a) Non derivative cash flows

The table below presents, the undiscounted cash flows payable by the Bank under non-derivative financial liabilities on their contractual maturities.

At 31 December 2018

	Up to 1 month	1 - 3 months	3 months to 1 year	1 - 5 years	Over 5 years	Total
Financial Liabilities						
Due to other banks	620,586	-	-	-	-	620,586
Customer Accounts	2,762,901	840,566	1,454,090	91,483	7,245	5,156,285
Subordinated debts	-	2,656	8,395	225,693	-	236,744
Other liabilities	41,391	2,742	10,300	-	-	54,433
Credit commitments	87,882	-	-	-	-	87,882
Letters of guarantee and letters of credit	135,006	-	-	-	-	135,006
Total financial liabilities (contractual maturity dates)	**3,647,766**	**845,964**	**1,472,785**	**317,176**	**7,245**	**6,290,936**
Total financial assets (contractual maturity dates)	**1,086,249**	**266,685**	**1,640,520**	**2,506,284**	**1,705,686**	**7,205,424**
Net position	**(2,561,517)**	**(579,279)**	**167,735**	**2,189,108**	**1,698,441**	**914,488**
Cumulated liquidity (gap)/surplus	**(2,561,517)**	**(3,140,796)**	**(2,973,061)**	**(783,953)**	**914,488**	

(all amounts in RON thousand unless otherwise stated)

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

33.6 Liquidity risk (continued)

a) Non derivative cash flows (continued)

At 31 December 2017

	Up to 1 month	1 – 3 months	3 months to 1 year	1 - 5 years	Over 5 years	Total
Financial Liabilities						
Due to other banks	956,004	24,255	-	-	-	980,259
Customer Accounts	2,117,293	1,006,907	1,182,424	45,278	6,168	4,358,070
Subordinated debts	-	16	3,098	86,333	189,490	278,937
Other liabilities	11,227	33,892	5,198	-	-	50,317
Credit commitments	86,903	-	-	-	-	86,903
Letters of guarantee and letters of credit	140,572	-	-	-	-	140,572
Total financial liabilities (contractual maturity dates)	**3,311,999**	**1,065,070**	**1,190,720**	**131,611**	**195,658**	**5,895,058**
Total financial assets (contractual maturity dates)	**1,998,345**	**270,908**	**1,097,151**	**2,386,698**	**1,260,038**	**7,013,140**
Net position	**(1,313,654)**	**(794,162)**	**(93,569)**	**2,255,087**	**1,064,380**	**1,118,082**
Cumulated liquidity (gap)/surplus	**(1,313,654)**	**(2,107,816)**	**(2,201,385)**	**53,702**	**1,118,082**	

The Bank has a short net position less than 1 year due to the short maturity of liabilities to customers and to credit institutions. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty; based on the history of prolongation of clients' deposits the Bank considers these sources of funding to be reasonable stable.

(all amounts in RON thousand unless otherwise stated)

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

33.6 Liquidity risk (continued)

b) Derivative cash flows

The table below analyses, at balance sheet date, the derivative financial liability instruments that will be settled on a gross basis (i.e. currency forward and swaps) based on their remaining period according to the contract.

The total pay leg (outflow) and receive leg (inflow) and for each type of derivative and for each maturity group are disclosed at their contractual undiscounted amounts.

Derivatives held for trading

Foreign exchange derivatives

31 December 2018	Up to 1 month	1 - 3 months	3 - 6 months	Total
Gross settled swaps and forwards:				
Outflow	(257,607)	(142,489)	-	(400,096)
Inflow	258,769	143,781	-	402,550

31 December 2017	Up to 1 month	1 - 3 months	3 - 6 months	Total
Gross settled swaps and forwards:				
Outflow	(62,616)	(1,213,319)	-	(1,275,935)
Inflow	62,258	1,213,613	-	1,275,871

(all amounts in RON thousand unless otherwise stated)

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

33.7 Financial instruments by measurement category

At 31 December 2018	FVTPL (mandatory)	FVTPL (designated)	Debt instruments at FVOCI	Equity instruments at FVOCI	Amortized Cost	Total
Cash and balances with Central Bank	-	-	-	-	821,969	821,969
Due from other banks	-	-	-	-	200,703	200,703
Investments in debt securities	-	-	913,329	-	517,501	1,430,829
Loans and advances to customers	-	-	-	-	3,671,276	3,671,276
Derivative financial assets	1,820	-	-	-	-	1,820
Financial assets FVTPL	2,359	-	-	-	-	2,359
Trading securities	-	-	-	-	-	-
Investments securities available for sale	-	-	-	-	-	-
Repurchase receivables	-	-	317,467	-	-	317,467
Other financial assets	-	-	-	-	14,570	14,570
Total financial assets	**4,179**	**-**	**1,230,796**	**-**	**5,226,019**	**6,461,043**
Due to other banks	-	-	-	-	620,544	620,544
Customer Accounts	-	-	-	-	5,132,903	5,132,903
Derivative financial liabilities	1,437	-	-	-	-	1,437
Financial liabilities FVTPL	2,357	-	-	-	-	2,357
Subordinated debts	-	-	-	-	186,678	186,678
Other financial liabilities	-	-	-	-	54,433	54,433
Total financial liabilities	**3,794**	**-**	**-**	**-**	**5,994,558**	**5,998,352**

(all amounts in RON thousand unless otherwise stated)

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

33.7 Financial instruments by measurement category (continued)

At 31 December 2018

Investments in debt securities

31 December 2018	Debt securities mandatorily measured at FVTPL	Debt securities designated as at FVTPL at initial recognition	Debt securities at FVOCI	Debt securities at AC	Total
Romanian Government Bonds	-	-	**913,329**	**516,212**	**1,429,541**
- in RON	-	-	585,327	348,622	933,949
-in EUR	-	-	299,119	167,590	466,709
-in USD	-	-	28,883	-	28,883
Equity instruments	-	-	-	**1,339**	**1,339**
- in RON	-	-	-	1,191	1,191
-in EUR	-	-	-	148	148
Total investments in debt securities at 31 December 2018 (fair value or gross carrying value)	-	-	**913,329**	**517,551**	**1,430,880**
Credit loss allowance	-	-	-	**(50)**	**(50)**
- in RON	-	-	-	(33)	(33)
-in EUR	-	-	-	(17)	(17)
-in USD	-	-	-	-	-
Total investments in debt securities at 31 December 2018 (carrying value)	-	-	**913,329**	**517,501**	**1,430,830**

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

33.7 Financial instruments by measurement category (continued)

At 31 December 2018

Starting with January 2018 the trading portfolio has been reclassified into financial assets at fair value through other comprehensive income (available for sale securities).

	2017
Trading securities issued by Romanian Government	
- in RON	223,366
-in EUR	16,774
	240,140

Analysis by credit quality of debt trading securities is as follows at 31 **December 2017:**

Neither past due nor impaired (at fair value)

	2017
	Trading securities
BBB-	240,140
Total	**240,140**

Financial assets at fair value through profit or loss

In RON thousands	**2018**	**2017**
Gold Accounts (E-Gold)	2,359	2,269
Total other financial assets/liabilities at fair value through profit or loss	**2,359**	**2,269**

(all amounts in RON thousand unless otherwise stated)

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

33.7 Financial instruments by measurement category (continued)

At 31 December 2017	Financial assets at fair value through profit and loss	Loans and receivables	Available-for-sale financial assets	Financial liabilities at fair value through profit and loss	Financial liabilities measured at amortised cost	Total
Cash and balances with Central Bank	-	1,010,758	-	-	-	1,010,758
Due from other banks	-	458,024	-	-	-	458,024
Loans and advances to customers	-	3,450,399	-	-	-	3,450,399
Derivative financial assets	934	-	-	-	-	934
Financial assets FVTPL	2,269	-	-	-	-	2,269
Trading securities	240,140	-	-	-	-	240,140
Investments securities available for sale	-	-	730,687	-	-	730,687
Repurchase receivables	-	-	377,230	-	-	377,230
Other financial assets	-	9,610	-	-	-	9,610
Total financial assets	**243,343**	**4,928,791**	**1,107,917**	**-**	**-**	**6,280,051**
Due to other banks	-	-	-	-	980,193	980,193
Customer Accounts	-	-	-	-	4,347,141	4,347,141
Derivative financial liabilities	-	-	-	6,211	-	6,211
Financial liabilities FVTPL	-	-	-	2,268	-	2,268
Subordinated debts	-	-	-	-	256,344	256,344
Other financial liabilities	-	-	-	-	50,317	50,317
Total financial liabilities	**-**	**-**	**-**	**8,479**	**5,633,995**	**5,642,475**

(all amounts in RON thousand unless otherwise stated)

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

33.8 Capital adequacy

Capital adequacy and the use of regulatory capital of the Bank are on a regular basis monitored by the Bank and are filed, on a monthly basis, with the supervisory authorities namely the NBR.

The supervisory authority requires each bank to hold a minimum level of the regulatory capital according to the sum of risk which the institution undertakes.

The Bank's main objectives which determine the use of the regulatory capital are:

- The preservation of the Bank's ability to continue unhindered its operations, thus to continue to provide returns and benefits to its shareholders;
- To retain a vigorous and stable capital base in order to be able to support the Bank's business strategy.

In order for the regulatory capital to be determined, own share capital must undergo some regulatory adjustments, such as the deduction of intangible assets, the deduction of the available of sale reserve, the deduction of the proposed distribution of dividend etc.

	31-Dec-18	31-Dec-17
Tier I capital	**587,911**	**616,921**
Share capital	*1,163,834*	*1,163,834*
Reserves (adj. for fiscal impact assoc. to reserves utilization)	*96,113*	*91,750*
Retained earnings	*(628,118)*	*(594,208)*
Current profit/(loss)	*(35,659)*	-
IFRS 9 impact (Transitional measures)	*35,229*	-
Deductions	*(43,489)*	*(44,454)*
Tier II Capital	**167,666**	**187,845**
Total capital	**755,576**	**804,766**
Risk - weighted assets:		
On - balance sheet	3,913,538	3,664,029
Off - balance sheet	89,854	66,214
Total risk - weighted assets	**4,003,392**	**3,730,243**
Total Capital Adequacy ratio (Basel II)	**18.87%**	**21.57%**

Starting January 2014, the Bank calculates the capital adequacy according to Regulation (EU) no 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and according to the Regulation 5/20.12.2013 of the National Bank of Romania on prudential requirements for credit institutions.

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

33.8 Capital adequacy (continued)

The Bank has adopted a conservative approach in respect with the impact of IFRS 9 by applying for transitional arrangements, phasing the impact over 5 years.

For 2018 the Bank had to maintain on an individual basis a total capital adequacy ratio of 16.90% a Tier 1 capital ratio of 13.64% and a Common Tier 1 capital ratio of 11.19%, as these ratios are defined in Regulation (EU) no 575/2013.

The minimum Common Equity Tier 1 capital ratio of 11.19% includes:

(i) the minimum Common Equity Tier 1 ratio required to be maintained to all times in accordance with Article 92(1)(a) of EU Reg. no. 575/2013;

(ii) the Common Equity Tier 1 ratio required to be held in excess in accordance with Article 16(2)(a) of EU Reg. no. 1024/2013;

(iii) the capital conservation buffer required under Article 129 Dir. 2013/36/EU as implemented in the national law of Romania; and

(iv) the systemic risk buffer required under Article 131 Dir. 2013/36/EU as implemented in the national law of Romania.

Taxation risk

The Romanian taxation system has just undergone a process of consolidation and harmonisation with European Union legislation. However, there are still different interpretations of the fiscal legislation. In various circumstances, the tax authorities may have different approaches to certain issues, and assess additional tax liabilities, together with late payment interest and penalties. In Romania, tax periods remain open for 7 years. The Bank's management considers that the tax liabilities included in these financial statements are fairly stated, and they are not aware of any circumstances which may give rise to a potential material liability in this respect.

Starting August 2017 Piraeus Bank Romania SA was subject to a tax audit performed by the Romanian Tax Authority that was closed in December 2018. The scope of the tax audit covered the corporate income tax and the transfer pricing file for the period 01.01.2011 – 31.12.2016. The fiscal audit ended with a significant additional tax liabilities for the Bank. The main impact was related to derecognition of the fiscal loss carried forward from ATE Bank Romania, in the context of the spin-off transaction which was performed in 2013. Following a very careful assessment of the practical chances of winning, the Bank has decided to challenge the outcome of the tax audit. Subsequently, in line with the provisions of IAS 12, the Bank recognized an uncertain tax asset of RON 41,7million.

34 COMMITMENTS AND CONTINGENCIES

Transfer pricing

Romanian tax legislation includes the arm's length principle according to which transactions between related parties should be carried out at market value. Local taxpayers engaged in related party transactions have to prepare their transfer pricing documentation file. Failure to present the transfer pricing documentation file, or presenting an incomplete file, may lead to non-compliance penalties; additionally, not with standing the contents of the transfer pricing documentation, the tax authorities may interpret the facts and transactions differently from management and impose additional tax liabilities resulting from transfer price adjustments.

Compliance with covenants

The Bank is subject to certain covenants primarily relating to its borrowings. Non-compliance with such covenants may result in negative consequences for the Bank including growth in the cost of borrowings. The Bank was in compliance with covenants at 31 December 2018.

Credit related commitments

The Bank grants loans that were not fully drawn by the clients. The validity period of these commitments does not exceed the contractual maturity.

The Bank has commitments for loan granting. These commitments take the form of approved loans and credit line facilities. The amounts reflected in the commitments for loan granting are based on the assumption that all the amounts may be withdrawn without restrictions.

The primary purpose of these instruments is to ensure that funds are available to a customer as required.

Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The 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.

(all amounts in RON thousand unless otherwise stated)

34 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Credit related commitments

	31 December 2018	31 December 2017
Unused credit facilities, out of which:	994,031	663,651
Committed credit facilities	87,882	86,903
Uncommitted credit facilities	906,149	576,748
Financial guarantees	80,401	66,652
Letters of credit	18,884	1,724
Less Provisions	(2,397)	(1,054)
Less cash collateral	(31,222)	(23,461)
Net credit related commitments	**1,059,697**	**707,512**

Movement in provisions for credit related commitments

	31 December 2018	31 December 2017
Opening provision	**1,055**	**746**
Losses charged in P&L	2,170	745
Unused amounts reversed	(828)	(436)
Closing provision	**2,397**	**1,055**

Performance guarantees

The performance guarantees breakdown as of 31 December 2018, respectively 31 December 2017 is as follows:

	31 December 2018	31 December 2017
Letter of Guarantees –Executions	24,538	65,866
Letter of Guarantees –Auctions	4,602	5,820
Letter of Guarantees –Other	1,599	509
Letter of Guarantees – Comfort Letter	4,982	-
Less Provisions	(2,222)	(1,721)
Less cash collateral	(4,618)	(41,083)
Net performance guarantees	**28,881**	**29,391**

Movement in provisions for performance guarantees

	31 December 2018	31 December 2017
Opening provision	**1,721**	**1,980**
Losses charged in P&L	793	215
Unused amounts reversed	(292)	(474)
Closing provision	**2,222**	**1,721**

(all amounts in RON thousand unless otherwise stated)

34 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Assets pledged/restricted

The securities pledged represent RON 317,467 thousand (2017: RON 377,230 thousand) repo transactions presented in Note 11 and RON 16,221 thousand (2017: RON 15,933 thousand) - guarantees for the Bank's operations through Clearing House and Transfond.

The placements in amount of RON 52,564 thousand (31 December 2017: RON 42,073 thousand) represent collateral deposits (RON 50,838 thousand) for swap transactions and (RON 1,725 thousand) for cards activity.

Commitments rent contracts

In the committed rent contracts for the branches, where the Bank is the lessee, the future minimum lease payments under non-cancellable building operating leases are as follows:

	31 December 2018	31 December 2017
No later than 1 year	34,580	33,924
Later than 1 year and no later than 5 years	24,837	46,513
Total	**59,417**	**80,437**

While the future minimums lease receivables under non-cancellable building operating leases are as follows:

	31 December 2018	31 December 2017
No later than 1 year	189	3,000
Later than 1 year and no later than 5 years	-	2,632
Total	**189**	**5,632**

Most contracts may be unilaterally terminated by the Bank with a 3 to 6 months prior notice. In case of unilateral termination of the contract by the Bank, it is required a penalty fee, usually no more than 3 month rent value. Some of the contracts were negotiated with advance payment which usually does not exceed 3 months.

	31 December 2018	31 December 2017
No later than 1 year	4,242	3,868
Later than 1 year and no later than 5 years	4,483	7,610
Later than 5 years	-	-
Total	**8,725**	**11,478**

(all amounts in RON thousand unless otherwise stated)

35 FAIR VALUE DISCLOSURES

Fair values of financial assets and liabilities

Analysis by fair value hierarchy of financial instruments carried at fair value

Level 1: includes instruments quoted in active markets for identical assets or liabilities. Quoted prices must be readily and regularly available from an exchange or active index/market location and prices must represent actual and regularly occurring market transactions on an arm's length basis.

Level 2: includes instruments whose fair value is determined using inputs that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. Derived from prices); and

Level 3: includes instruments whose fair value is determined using inputs that are not based on observable market data (unobservable inputs).

	31 December 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Trading securities				-
Treasury bills and bonds FVTOCI	-	1,429,491	-	1,429,491
Repurchase receivables	-	317,467	-	317,467
Derivative financial assets	-	1,820	-	1,820
Other financial assets at fair value through profit or loss	2,359	-	-	2,359
Equity investments FVTOCI	-	-	1,339	1,339
Investment property (Note 13)	-	-	30,220	30,220
Total assets				
Derivative financial liabilities	-	1,437	-	1,437
Financial liabilities at fair value through profit or loss	-	2,357	-	2,357
Total liabilities		**3,794**		**3,794**

	31 December 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Trading securities	-	240,140	-	240,140
Treasury bills and bonds available for sale	-	729,291	-	729,291
Repurchase receivables	-	377,230	-	377,230
Derivative financial assets	-	934	-	934
Other financial assets at fair value through				-
profit or loss	-	2,269	-	2,269
Equity investments available for sale	-	-	1,396	1,396
Investment property (Note 13)	-	-	30,879	30,879
Total assets	**-**	**1,349,864**	**32,275**	**1,382,139**
Derivative financial liabilities	-	6,211	-	6,211
Financial liabilities at fair value through profit or loss	-	2,268	-	2,268
Total liabilities	**-**	**8,479**	**-**	**8,479**

(all amounts in RON thousand unless otherwise stated)

35 FAIR VALUE DISCLOSURES (CONTINUED)

Financial instruments not carried at fair value

The following table summarizes the fair values and the carrying amounts of those financial assets and liabilities not presented on the Bank's balance sheet at their fair value.

31 December 2018	Level 1	Level 2	Level 3	Total
Cash and balances with Central Bank	821,969	-	-	821,969
Due from other banks	-	200,703	-	200,703
Loans and advances to customers	-	-	3,815,390	3,815,390
Other financial assets	-	-	14,570	14,570
Total assets	**821,969**	**200,703**	**3,829,960**	**4,852,632**
Due to other banks	-	620,544	-	620,544
Customer Accounts	-	-	5,132,903	5,132,903
Subordinated debts	-	-	186,678	186,678
Total liabilities	**-**	**620,544**	**5,319,581**	**5,940,125**

31 December 2017	Level 1	Level 2	Level 3	Total
Cash and balances with Central Bank	189,692	821,066	-	1,010,758
Due from other banks	-	458,024	-	458,024
Loans and advances to customers	-	-	3,450,399	3,450,399
Other financial assets	-	-	9,610	9,610
Total assets	**189,692**	**1,279,090**	**3,460,009**	**4,928,791**
Due to other banks	-	980,193	-	980,193
Customer Accounts	-	-	4,347,141	4,347,141
Subordinated debts	-	-	256,344	256,344
Other financial liabilities	-	-	47,542	47,542
Total liabilities	**-**	**980,193**	**4,651,027**	**5,631,220**

a. Due from other banks

Due from other banks includes inter-bank placements and items in the course of collection. The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

35 FAIR VALUE DISCLOSURES (CONTINUED)

b. Loans and advances to customers

Loans and advances are net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

Considering that the products are priced based on variable interest rates, there are no significant differences between fair value and carrying value.

c. Deposits and borrowings

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest-bearing deposits and other borrowings without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

Considering that the products are priced based on variable interest rates, there are no significant differences between fair value and carrying value.

d. Available for sale and trading investment securities

Fair value of investment securities is established by using valuation techniques and internally developed models. These include the use of discounted cash flow analysis after developing a theoretical zero yield curve and applying a spread to quantify liquidity risk. The theoretical zero yield curve is calculated by using market prices from Reuters (bid prices for bonds), determining by a recursive procedure the yield curve with 9 nodes for RON denominated financial instruments and 4 nodes for EUR denominated financial instruments that would minimize the difference between results obtained and market prices.

e. Derivative financial assets and liabilities

As of 31 December 2018 the present value of the derivative financial instruments is computed using Euribor/Libor interest rates for foreign currencies as published on Reuters. Interest rates for the local currency are determined based on Euribor/Libor interest rates and on the EUR/RON swap points that are taken from Reuters as mid-market of the arithmetic average of two of the largest banks in Romania.

The management of the Bank considers the rates published by these two banks as reliable, given their size, importance for the Romanian banking system and active presence on the market. Using the average of the two banks' quotes alleviates the effect of possible outliers. The two banks are important counterparties of the Bank.

By using these swap points, the EUR/RON spot exchange rate and the Euribor/Libor for EUR/RON the implied rate is extracted and consequently used to calculate swap points for USD/RON, CHF/RON, GBP/RON, JPY/RON.

Further these interest rates and CCY/RON spot exchange rates published by NBR are used to determine the forward/swap points that are considered in the valuation of currency swaps and forwards.

f. Financial assets at fair value through profit or loss ("FVTPL")

The mark-to-market for the Gold Account product is done at NBR rate (RON/gram) valid for the day and transformed into ounces. For gold account there is no opened position, all client deals are immediately closed with the provider financial institution.

35 FAIR VALUE DISCLOSURES (CONTINUED)

g. Equity investments available for sale

Investment securities available for sale include equity securities with a carrying value of RON 1,339 thousand (2017: RON 1,396 thousand) which are not publicly traded. Due to the nature of the local financial markets, the current market value for these investments is not available.

Management could not reliably estimate the fair value of the Bank's investment in shares of Biroul de Credit SA, Transfond SA, Casa de Compensare Bucuresti SA, Fondul de Compensare a Investitorilor S.A., SWIFT, Depozitarul Central. The investments are carried at cost of RON 462 thousand, RON 326 thousand, RON 3 thousand, RON 2 thousand, RON 148 thousand, respectively RON 398 thousand . The investees have not published recent financial information about their operations, their shares are not quoted and recent trade prices are not publicly accessible.
The management does not intend to dispose the investments in the foreseeable future.

h. Investment property

Investment property is property held by the Bank to earn rental income or for capital appreciation, or both and which is not occupied by the Bank. The fair value is determined based on discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

36 RELATED PARTY TRANSACTIONS

The nature of the related party relationships for those related parties with whom the bank entered into significant transactions or had significant balances outstanding at 31 December 2018 and 31 December 2017 are detailed below.

The related parties considered for reporting purposes comprise of:

(a) Shareholder after June 28th 2018:

- JCF IV Tiger Holdings S.a.r.l: No transactions after June 28th 2018 have been realised with any related party entity of the new shareholder.

(b) Shareholder up to June 28th 2018:

- Piraeus Bank SA (Greece) – current accounts, deposits, subordinated debts, derivatives, interest income, interest expense;

Group entities up to June 28th 2018:

- Piraeus Bank London Branch, branch of Piraeus Bank SA (Greece) – current accounts, deposits, transferred loans (sub-participation), interest income, servicing fee for administrated assets;
- Piraeus Leasing Romania, fellow subsidiary of Piraeus Bank SA (Greece) – current accounts, deposits, fee and commission income, interest expense, rental expense for buildings;
- Piraeus Bank Bulgaria, fellow subsidiary of Piraeus Bank SA (Greece) – current accounts;
- Piraeus Bank AD Belgrade, fellow subsidiary of Piraeus Bank SA (Greece) - deposits;
- Piraeus Real Estate Consultants, fellow subsidiary of Piraeus Bank SA (Greece) – current accounts, deposits, liabilities, collaterals' valuation services, fee and commission income, interest expense, rental income;

36 RELATED PARTY TRANSACTIONS (CONTINUED)

- ATE Insurance Romania, fellow subsidiary of Piraeus Bank SA (Greece) - current accounts, deposits, interest expense;
- Project Season Residence SRL, fully owned subsidiary of a fellow subsidiary of Piraeus Bank SA (Greece) - current accounts, fee and commission income;
- Daphne Real Estate Consultancy SRL, fully owned subsidiary of a fellow subsidiary of Piraeus Bank SA (Greece) - fee and commission income;
- Alecsandri Estates SRL, fully owned subsidiary of a fellow subsidiary of Piraeus Bank SA (Greece) - current accounts;
- General Business Management Investitii SRL - fee and commission income;
- Piraeus Bank S.A. Frankfurt - interest income; and
- Bank management – current accounts, deposits, and loans granted, interest income and interest expense.

(all amounts in RON thousand unless otherwise stated)

36 RELATED PARTY TRANSACTIONS (CONTINUED)

The Bank's management is defined according to regulatory frame (OUG 99/2006 modified & Regulation 5 / 30.12.2013) and identified as: Members of management body in its supervisory function (BoD), Members of management body (ExCo), Senior management, Middle management for significant activities and Key function holders.

	31 December 2018	Up to 31 December 2018		Up to 28 June 2018		31 December 2017		
	Key Management	Group entities	Parent	Former Group entities	Former Parent	Key Management	Group entities	Parent
Assets								
Current accounts at banks	-	-	-	90	9,827	-	87	221,059
Placements with banks	-	-	-	-	-	-	-	-
Loans to management	4,478	-	-	-	-	7,260	-	-
Derivative instruments	-	-	-	-	3,224	-	-	-
Other assets	-	-	-	6	-	-	479	-
Total assets	**4,478**	**-**	**-**	**96**	**13,051**	**7,260**	**566**	**221,059**

(all amounts in RON thousand unless otherwise stated)

36 RELATED PARTY TRANSACTIONS (CONTINUED)

	31 December 2018	Up to 31 December 2018		Up to 28 June 2018		31 December 2017		
	Key Management	Group entities	Parent	Former Group entities	Former Parent	Key Management	Group entities	Parent
Liabilities								
Current accounts and due to other banks	-	-	-	37	37,153	-	43	211,601
Asset management liabilities (principal and interest)	-	-	-	-	121,485	-	-	123,837
Due to customers	-	-	-	54,296	-	-	49,771	-
Subordinated debt	-	-	-	-	186,478	-	-	256,344
Deposits from management	20,896	-	-	-	-	3,688	-	-
Derivative instruments	-	-	-	-	27	-	-	6,155
Other liabilities	-	-	-	51	-		361	-
Total liabilities	**20,896**	**-**	**-**	**54,384**	**345,143**	**3,688**	**50,175**	**597,937**

(all amounts in RON thousand unless otherwise stated)

36 RELATED PARTY TRANSACTIONS (CONTINUED)

	31 December 2018	Up to 31 December 2018		Up to 28 June 2018		31 December 2017		
	Key Management	Group entities	Parent	Former Group entities	Former Parent	Key Management	Group entities	Parent
Revenues								
Interest on loans	163	-	-	(62)	-	156	-	-
Interest on money market Placements	-	-	-	-	230	-	-	5,351
Gains less losses related to swaps	-	-	-	-	12,180	-	-	24,385
Commission income from administration of transferred loans	-	-	-	-	28,037	-	-	75,275
Other commission income	7	-	-	14	-	7	12	-
Trading income (FX swaps)	-	-	-	(1,728)	-	-	(295)	-
Interest on subordinated debt	-	-	-	62	-	-	-	-
Rental income	-	-	-	34	-	-	67	-
Total revenues	**170**	**-**	**-**	**(1,680)**	**40,447**	**163**	**(216)**	**105,011**

(all amounts in RON thousand unless otherwise stated)

36 RELATED PARTY TRANSACTIONS (CONTINUED)

	31 December 2018	Up to 31 December 2018		Up to 28 June 2018		31 December 2017		
	Key Management	Group entities	Parent	Former Group entities	Former Parent	Key Management	Group entities	Parent
Expenses								
Interest on deposits from customers	(46)	-	-	(219)	-	(13)	(220)	-
Interest on deposits from banks	-	-	-	-	(64)	-	-	(21,034)
Interest on subordinated debt	-	-	-	-	(2,076)	-	-	(4,147)
Expense with management salaries	(25,676)	-	-	-	-	(14,081)	-	-
Fees and third parties expenses	-	-	-	(336)	(1,123)	-	(1,537)	(587)
Commission expense	-	-	-	-	-	-	-	-
Rental expense	-	-	-	(3,403)	-	-	(6,661)	-
Other operating expenses	-	-	-	(150)	-	-	-	-
Total expenses	**(25,722)**	**-**	**-**	**(4,108)**	**(3,263)**	**(14,094)**	**(8,418)**	**(25,768)**

(all amounts in RON thousand unless otherwise stated)

37 EVENTS AFTER THE REPORTING PERIOD

On 16th of April 2019 the Bank signed the Sale and Purchase Agreement for the acquisition of Leumi Bank Romania ("Leumi"), a small sized bank with c. €250m assets. Beside the acquisition of 99.92% of the shares in Leumi, the transaction will imply the purchase of some corporate loans that were originated in Romania and are currently booked in the balance sheet of the Bank Leumi Israel. The seller, the Israeli banking group Bank Leumi (Leumi Group), is headquartered and listed in Tel Aviv, Israel. The sale is part of Leumi Group's strategic decision re-focus its international activities on the US and the UK markets. The transaction will allow First Bank to boost its profitability by leveraging on a significant synergy potential. The completion of the transaction is planned for Q4 2019, while the legal merger for the first half of 2020.

In January 2019, the Bank lost a court case covering potential claims from past commercial practices. Losses derived from past commercial practices are covered by strong indemnities at the level of the parent company (JCF IV Tiger Holdings S.a.r.l). The Board of Directors has approved in its meeting from April 12, 2019 the acquisition of such indemnities rights in a specific amount. The purchase of the indemnity rights is expected to be completed in May 2019.

In January 2019 the Bank has initiated the administrative procedures for challenging the outcome of the tax audit.

Aiming to secure comfortable capital buffers the main shareholder has expressed its intention to contribute to the increase of the share capital of the Bank with c. €15.9m. In this respect the Extraordinary General Assembly of Shareholders was summoned for May 20, 2019.

In April 2019, the Bank signed a sale and lease-back transaction for the building where it is headquartered. The transaction will help the Bank to further strengthen its capital buffers.

There are no other material events since the reporting period that need to be disclosed.

On May 7th, 2019 the Board of Directors reviewed the financial statements and authorized them for issue. These financial statements will be submitted for approval to the Shareholders General Assembly to be held on May 7th, 2019.

The financial statements were signed on behalf of the Board of Directors on May 7, 2019 by:

J40 / 1441 / 1995 FIRST BANK S.A. 4 BUCUREȘTI

Dominic Bruynseels	**Viorel Mischie**
Executive President	**Vice-president**

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Board of Directors' Annual Report

2018

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1. Macroeconomic Environment

GDP Growth 4.1%

Economic Growth:

Generally, the domestic macroeconomic and financial environment remained favourable in 2018. Despite decelerating trend compared to the elevated dynamics in 2017 (7.0%), the Romania economy advanced by 4.1% in 2018. Consumption added 3.3ppt to GDP growth, down from 6.2ppt of 7% growth in 2017. Inventories added 2.7ppt, while investments and net exports subtracted -0.7ppt and -1.8ppt, respectively.

Similar to previous years, private consumption remained the main driver of the GDP advance. The increase of wages (by around 8% in real terms) boosted households' appetite for spending largely contributing to the advance in private consumption (5.3% y/y). The performance of gross fixed investments was modest in 2018, decreasing by 3.2% as compared to 2017. The gross value added increased in almost all sectors of economy: services (3.6%), industry (4.1%) and agriculture (10.0%). The performance of construction sector continued disappointing in 2018 (-5.6%).

Foreign demand held back the economic advance, as imports of goods and services outrun exports. Exports of goods and services increased by 5.4% in 2018. The economy started to feel the negative effects of slower Eurozone growth and global trade tensions, as exports towards both non-EU and EU countries decelerated at the end of the last year. Similar to the previous years, imports posted a more rapid increase (9.1%) than exports, resulting in a negative contribution of net exports to the economic growth. This resulted also in the increase of the current account deficit.

C/A Deficit 4.7% of GDP

Current Account:

Romania's current account (C/A) deficit reached EUR9.4bn, or -4.7% of GDP, in 2018. It has widened by 58% y/y while its financing structure has weakened. The main driver of the C/A deterioration has been the trade deficit widening by 16.8% since 2017, to reach -7.5% of GDP. The service sector, which should have been one of the offsetting factors of the trade deficit, was almost flat all over the year. Another important offsetting factor – foreign direct investment (FDI) - stood almost flat in 2018 and closed the year covering only 52% of the C/A deficit, down from 82% in 2017.

Budget Deficit 2.9% of GDP

Fiscal Policy:

The budget deficit in cash terms ended the year 2018 at 2.88%, better than the 3.0% target of GDP. Budget revenues increased by 17.2% y/y, while the budget spending advanced by 16.8%. Wages closed the year at 26.7% of total expenditure. Adding social expenditure leads to "rigid" spending at 58.1% of the total, slightly less than in 2017 (58.7%). Public investments remained weak, although their share in total spending increased from 14.2% in 2017 to 15.3% in 2018.

Inflation 3.3%

Inflation:

After reaching a high of 5.4% in mid-2018 and staying above 4.0% for most of the year, the inflation rate has fallen within the central bank's target, to 3.3% in December 2018. While year-end inflation rate stood not too far from the 3.32% posted at the end of 2017, the average inflation rate reached 4.63% in 2018, significantly higher than 1.34% average inflation rate posted one year before. On the positive side, underlying inflationary pressures stabilized during 2018.

Policy Rate
2.5%

Monetary Policy:
The National Bank of Romania (NBR) hiked three times the key interest rate, to 2.50% from 1.75%, in the first half of 2018 following the rapid increase of the inflation rate and the deterioration of the inflation outlook. Money market interest rates (ROBOR) were quoted above the level of the key interest rate, so the monetary policy stance was tighter than implied by the level of the key rate for the majority of the year.

3M ROBOR
2.8% (avg.)

Interest Rates:
Interbank money market rates (ROBOR) increased from levels around 2% at the beginning of the year, to 3.3-3.5% in the second part of 2018, with 12M ROBOR above the point of NBR lending facility rate (3.5%) at the end of the year. Developments on Government bonds yields reflected the influences brought by the current and expected evolution of liquidity conditions on the interbank money market.

RON / EUR
4.66 (eop)

Exchange Rates:
The EUR / RON rate had a relatively stable evolution during 2018, while the other two majors (CHF and USD) posted a slightly higher volatility. The risks accumulated at the level of the twin deficits (budget deficit and current account deficit) may favour a gradual depreciation of the local currency.

2. Banking Market

Loans
7.9% y/y

Loans:
The total stock of banking loans granted to the private sector (households and companies) increased by 7.9% in 2018 to RON 251bn. The RON denominated loans expanded 13.6% y/y while FCY credit declined by 1.3% y/y. The fastest advance was recorded by housing loans (11.0%), but good evolutions were also posted by consumer loans (6.9%) and loans granted to companies (6.1%). The share of FCY loans in total loans decreased further, to 34.6% at the end of 2018, down from 37.9% one year ago. The share of non-performing loans in total loans continued trending down, reaching 5.0% in December 2018, from 6.4% at the end of previous year.

The preference for granting new loans almost exclusively in domestic currency continued to be visible in 2018. At the same time, fixed interest rate loans saw further a pick-up in their share, with consumer loans being prevalently granted at a fixed interest rate and with a significant part of new housing loans having an initial rate fixation period of over five years.

Despite good evolution in lending, the financial intermediation has remained low, standing significantly below that in Europe or across the region.

Deposits
9.0% y/y

Funding:
Deposits advanced by 9.0% y/y to RON 330bn. Retail deposits advanced y/y by 11.3%, while companies' deposits grew by 5.7%. Loans are fully funded by domestic deposits (loan to deposits ratio below 80%). The reliance of domestic banks on foreign funding reduced further as the share of foreign liabilities in total gross assets decreased to 9% in December 2018, from 10% in December 2017 (and 31% in December 2008).

Profitability:
Following the large clean-up process in place during the past years, the profitability of the banking system improved further in 2018, on the back of lower impairment losses, robust expansion in lending and favourable macroeconomic conditions.

CAR
19.7% (p)

Capitalization:
The banking system holds a good capital base built mainly on Tier 1 capital instruments (preliminary CET1 at 17.8%). The available capital buffers allow banks to absorb shocks of medium intensity and support the lending activity.

3. The Bank and its shareholders

Bank's Profile:

First Bank is a fully-licensed banking entity in Romania, being headquartered in 29-31 Nicolae Titulescu Street, 1st district, Bucharest. The Bank is registered to Trade Commerce Registry with J40/1441/1995 while its fiscal registration number is 7025592.

First Bank offers a wide range of products and services for the local and international clients, including retail, SMEs and corporate banking. In addition, First Bank offers loan portfolio administration services. Currently, FB is servicing business and retail loans of two major Greek lenders (i.e. Piraeus Bank and Eurobank).

Change of Control
28 June, 2018

The Bank started its activity in 1995, as Pater Bank. In 2000, Piraeus Bank S.A. Greece entered the Romanian market by acquiring Pater Bank.

New name
First Bank S.A.

On 21 December 2017, an agreement for the sale and purchase of Piraeus Bank Group's shares in Piraeus Bank Romania (i.e. 99.99973% of total) was signed between Piraeus Bank S.A and J.C. Flowers & Co. On 28th of June 2018, J.C. Flowers & Co. has completed the acquisition process of Piraeus Bank Romania SA having received the necessary approvals from the National Bank of Romania.

In October 2018, the Bank changed its name from "Piraeus Bank Romania SA" to "First Bank SA".

Shareholders:

The main shareholder of the Bank is JCF IV Tiger Holdings S.a.r.l having the registered office in 5, rue Guillaume Kroll, L-1882 Luxembourg, Grand Duchy of Luxembourg.

J.C.Flowers & Co.

J.C. Flowers & Co. is a leading private investment firm dedicated to investing globally in the financial services industry. Founded in 1998, the firm has invested more than US$ 15 billion of capital in 53 portfolio companies in 18 countries, across a range of industry subsectors that include banking, insurance and reinsurance, securities firms, specialty finance, and services and asset management. Because J.C. Flowers & Co. is focused solely on the financial services sector, the extent of J.C. Flowers' relevant expertise and experience is unique among private equity investors and this gives J.C. Flowers the ability to add significant value to its investee companies, and in particular to First Bank. Among other valuable investments in financial sector, the portfolio of J.C. Flowers & Co includes: HSH Nordbank, OneSavings Bank UK, BTG Pactual Brazil, One West Bank US, Sehinsei Bank Japan, NIBC Netherlands, Hamburg Commercial Bank Germany. With more than US$ 6 billion of assets under management, J.C. Flowers & Co. has offices in New York and London.

EBRD

At the level of the parent company (i.e. JCF IV Tiger Holdings S.a.r.l), the European Bank for Reconstruction and Developments ("EBRD") has also invested to the degree of 19% of the share capital, ensuring strong support to the Bank for its future development. The EBRD was established in 1991 to help build a new, post-Cold War era in Central and Eastern Europe. It has since played a historic role and gained unique expertise in fostering change in the region - and beyond -, investing more than €130 billion in a total of over 5,200 projects. The EBRD serves the interests of all its shareholders - 67 countries from five continents plus the European Union and the European Investment Bank - not just those countries which receive its investments (€9.5 billion in 2018). At the same time, the number of EBRD shareholders is still increasing; recent new members include China and India. EBRD has strongly supported the development of the Romanian financial system.

Minorities

Minority shareholders (7 individuals) hold only 0.00027% of Bank's share capital.

Share Capital:

The registered share capital of the Bank consists of 222,608,563 allotted and fully paid ordinary shares with a nominal value of RON 5.

4. Corporate Governance

The corporate governance of First Bank represents an on-going process in which integrity; responsibility and transparency are fundamental elements in taking correct decisions and setting goals that contribute to increasing the confidence of shareholders in the company economic efficiency, sustainable growth and financial stability. At First Bank, all the involved parties understand the critical importance of effective corporate governance for the safe and sound functioning of the Bank.

General Shareholders Meeting:

General shareholders meetings are ordinary and extraordinary. The Ordinary General Shareholders Meeting meets at least once a year, within no more than 130 days from the end of the financial year, while the Extraordinary General Shareholders Meeting meets whenever necessary.

The Bank makes the best efforts, in compliance with the legal provisions in the field, to facilitate the shareholders' participation in the General Shareholders Meetings, as well as the full exercise of their rights.

Ordinary GSM 2018: 4

The Ordinary General Meeting decides on the annual financial statements (based on the reports presented by the Board of Directors and by the financial auditor), the dividend, election/ revocation of the members of the Board of Directors, Audit Committee and of the financial auditor, the remuneration of the Board members, discharging the Board members of their liability with respect to the previous fiscal year activities, the budget for the following financial year.

Extraordinary GSM 2018: 5

The Extraordinary General Shareholders Meeting decides on: change in the legal form of the Bank, the relocation of the headquarters, change of the object of activity, change the duration of the Bank, the early dissolution of the Bank, opening of insolvency proceedings of the Bank, increase or reduce the share capital, merge with another company or spin-off, split or de-merge the Bank, establishment, modification or dissolution of subsidiaries, any potential acquisition, alienation, lease, exchange or setting guarantees on the assets owned by the Bank, whose value exceeds half of the carrying amount of the Bank's assets, any amendment to the Articles of Association.

In 2018, there were 9 General Shareholders Meetings: 4 Ordinary General Shareholders Meetings (held on: March 5, 2018; May 3, 2018; June 19, 2018; and August 27, 2018) and 5 Extraordinary General Shareholders Meetings (held on: March 5, 2018; April 4, 2018; May 3, 2018; August 27, 2018; and October 19, 2018).

Administration and Management of the Bank

First Bank adopted a unitary management system that is fully consistent with the principles of good corporate governance, transparency of relevant corporate information, protection of shareholders and other stakeholders, as well as of an efficient operation.

The Board of Directors and the Executive Committee promote high ethical and professional standards and a strong internal control culture. Their composition, the size and the skills of their members are well suited for the size and the complexity of the Bank's activity.

The members of the Board of Directors and Executive Committee:

- Have a good reputation and the necessary expertise to carry out their responsibilities in compliance with the rules of prudent and healthy banking practices;
- Have the professional experience that implies theoretical and practical knowledge adequate to the nature, extent and complexity of the banking business and of the entrusted responsibilities;
- Ensure the conditions of the collective competence of the management bodies for an efficient and highly performing administration of the Bank;
- Commit sufficient time to their responsibilities, showing commitment and involvement in exercising their responsibilities.

The exercise of the responsibilities by members of the Board of Directors and the Executive Committee is subject of obtaining the approval of the National Bank of Romania.

Board of Directors:

The structure of the Board of Directors ensures a balance between executive and non-executive members. The Board of Directors meets whenever necessary, but at least quarterly.

Board of Directors

The composition of the Board of Directors as at 31 December 2018 was as follows:

- Mr. Nicolae Danila, Chairman (non-executive member)
- Mr. Dominic Bruynseels, Executive President and Member (executive member)
- Mrs. Ilinca Rosetti, Member (under NBR approval) / (non-executive member)
- Mr. Pedro Miguel Weiss, Vice-Chairman, Independent Member (non-executive member)
- Mr. Andrea Secci, Member (non-executive member)
- Mr. Bogdan Ciobotaru, Member (non-executive member)
- Mr. Richard Carrion, Member (non-executive member)
- Mr. Catalin Parvu, Member & First Vice-President (executive member)
- Mr. Viorel Mischie, Member & Vice-President (executive member)

In order to develop and maintain good practices of business administration, the Board of Directors set up five committees that assist it in performing its attributions: Audit Committee, Board Risk Committee, Nomination and Remuneration Committee, Board Credit Committee and Executive Committee.

Since the reporting date, the following changes have occurred in the structure of the Board of Directors:

- Mr. Viorel Mischie renounced to his mandate as member of the Board of Directors
- Mr. Paul Nabavi was elected as member of the Board of Directors (subject of NBR approval).
- Mrs. Ilinca Rosetti received the NBR approval and was elected as Vice-Chairman of the Board of Directors.

In addition, in order to support the business transformation process, the Board of Directors decided to establish the Transformation Committee.

Executive Committee:

The management and the coordination of the current activity of the Bank is delegated by the Board of Directors to the executive officers. The executive officers of the Bank are elected by the Board of Directors, among directors or from outside the Board, and act together in the Executive Committee. The meetings of the Executive Committee are held at least once per week, or any time the activity of the Bank requires it. There are 12 committees that assist the Executive Committee in performing its attributions.

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Executive Committee

The composition of the Executive Committee as at 31 December 2018 was as follows:

- Mr. Dominic Bruynseels, President
- Mr. Catalin Parvu, First Vice-President
- Mrs. Madalina Otilia Teodorescu, Vice-President
- Mr. Viorel Mischie, Vice-President
- Mr. Nikolaos Chaniotis, Vice-President
- Mr. Robert Hadley, Vice-President

Since the reporting date, the following changes have occurred in the structure of the Executive Committee:

- Mr. Razvan Filcescu, was appointed as Vice-President (responsible for Transformation and Credit risk areas) – subject to NBR approval.
- Mr. Cosmin Ciobanu was appointed as Vice-President /Chief Risk Officer (responsible for internal control areas) – subject to NBR approval.

5. 2018 Financial Results

2018 Highlights:

For First Bank, 2018 will remain a key development milestone for years to come. The change in ownership structure opens significant opportunities for the Bank, allowing more efficient operations across all customer segments, while combining the local touch with the international best practice.

Achievements

While in the first part of 2018 the organization was mainly focused to ensure a smooth change of control, the second part of the year came with significant commercial and operational achievements:

- Lending volumes posted a robust increase in corporate segments thanks to a better calibrated risk appetite and faster decision making with the elimination of the Greek lag to the lending approval process
- Personal lending volume has been stabilised and started trending up following policy and price changes
- Deposits grew above market speed, allowing the Bank to enjoy comfortable liquidity buffers
- A new servicing agreement was signed, allowing the Bank to preserve an important base of non-risk incomes
- Re-energizing the restructuring packages for clients with CHF loans, giving the chance to the Bank to extend the conversion program to the unoffered clients, while reducing the FX risk.
- A deep transformation process was initiated in compliance area, with focus on KYC and AML processes, while material investments have been routed to IT security to properly respond cyber-attacks and threats
- The brand was successfully changed to "First Bank" across all distribution points with positive customer and market commentary and staff enthusiasm.

Challenges

2018 came also with some significant financial hits, which were mainly associated to some legacy issues, but also to new requirements regarding the assessment of expected credit losses brought by IFRS 9:

- The tax audit covering the corporate income tax for 2011-2016 ended with a negative outcome for the Bank. Significant tax liabilities have been imposed but the Bank considers that the conclusions of the tax audit are not reasonably correct. Subsequently, the outcome of the fiscal audit will be challenged administratively and in court.

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- In January 2019, the Bank lost a legal case covering past commercial practices. As a consequence, the Bank booked in 2018 additional provisions in a significant amount.
- The implementation of IFRS9 with the subsequent calibration of the models covering the calculation of the expected credit losses came with a significant impact especially at the level of opening balances, with an important adjustment in equity.

The 2018 financial result was significantly damaged, but the Bank proved strong counteracting capacity:

- The decision of the Bank to challenge the tax audit outcome was taken based on a rigorous assessment on practical chances of winning. The assessment was substantiated by the conclusions of two independent opinions, which provided sufficient technical and legal arguments, allowing the Bank to be reasonably confident regarding its chances of winning in the challenging procedures. Subsequently, in line with the provisions of IAS 12, the Bank recognized an uncertain tax asset at the level of main tax liabilities (i.e. without the late payment of interest and penalties, which fall under IAS 37) offsetting almost 2/3 of the impact of the tax audit.
- Losses from past commercial practices are covered by strong indemnities at the level of the parent company. The Bank initiated actions aiming the partial acquisition of the indemnity rights. The transaction is expected to be completed in May 2019 and will be accompanied by an increase of the share capital.
- In early 2019, the Bank has initiated an ample restructuring process aiming to close the existing efficiency lags and achieve sustainable profitability. The restructuring process will affect both, the network and Head Office operations and will result in significant long term savings. A transformation project will run in parallel with the restructuring process targeting the complete transformation of the business model.
- The recently announced acquisition of "Leumi Bank Romania" is expected to boost the profitability of the Bank by leveraging on a significant synergy potential.

Despite the negative result registered in 2018, the Bank remains well positioned for achieving a sustainable and profitable growth, in line with shareholders' expectations.

2018 Financial Position:

The below financial position analysis is made based on the financial statements prepared according to the International Financial Reporting Standards, for the period ended December 31, 2018 and the comparative periods. The analysis is based on the equivalent in Euro of the amounts presented in the audited financial statements.

Assets:

Assets
€1.4bn
+5% y/y

The total assets at December 31, 2018 increased y/y by 4.5% reaching €1,445 million (2017: € 1,382 million).

The assets' structure is presented below:

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Assets (€ thousands)	31 Dec. 2018	% of total	y/y change	31 Dec. 2017	% of total
Cash and balances with Central Bank	176,241	12%	-19%	216,915	16%
Due from other banks	43,033	3%	-56%	98,295	7%
Trading securities	0	0%	-100%	51,536	4%
Investments in debt securities / AFS	306,788	21%	96%	156,810	11%
Repurchase receivables (Repo)	68,069	5%	-16%	80,956	6%
Loans and advances to customers	787,169	54%	6%	740,477	54%
Intangible assets	9,325	1%	12%	8,296	1%
Premises and equipment	24,754	2%	372%	5,241	0%
Investment property	6,480	0%	-2%	6,627	0%
Repossessed assets from foreclosed loans	6,875	0%	-17%	8,246	1%
Tax assets	10,239	1%	168%	3,819	0%
Other financial assets	4,020	0%	46%	2,750	0%
Other non-financial assets	1,914	0%	-5%	2,006	0%
Total	**1,444,906**	**100%**	**5%**	**1,381,972**	**100%**

Loans and advances to customers:

(Gross) Loans
€0.8bn
+4% y/y

The loan portfolio reached at December 31, 2018 a gross outstanding amount of €822 million (2017: €792 million), increasing by 3.7% compared to previous year, mainly due to good performance in companies segments. Retail segment posted improved results in the second part of the year following some policy changes and more competitive pricing.

The loan portfolio has a balanced mix, companies segments holding 59% of total portfolio (2017: 54%), while individuals' loans contribute with 41% in total loans (2017: 46%).

The composition of the loan portfolio is presented in the next table:

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Loans (€ thousands)	31 Dec. 2018	% of total	y/y change	31 Dec. 2017	% of total
Companies, out of which:	480,897	59%	13%	423,856	54%
Corporate	297,373	36%	5%	283,590	36%
SMEs	170,950	21%	32%	129,323	16%
Micro	12,574	2%	15%	10,944	1%
Individuals, out of which:	340,717	41%	-7%	368,330	46%
Individuals - consumer loans	91,239	11%	-3%	94,082	12%
Individuals - personal needs (secured)	81,939	10%	-24%	108,200	14%
Mortgage loans	154,159	19%	2%	150,814	19%
Overdraft	7,908	1%	-15%	9,299	1%
Credit Cards	5,472	1%	-2%	5,600	1%
Individuals - other	0	0%	-100%	336	0%
Total gross value	**821,615**	**100%**	**4%**	**792,187**	**100%**
Less provision for impairment	-34,446	-4%	-33%	-51,710	-7%
Total net value	**787,169**		**6%**	**740,477**	

The y/y movement was largely impacted by the carve-out of non-performing or "quasi" performing loans in amount of €51m. The carve-out was performed in June 2018, in the context of the transaction for the change of control.

The implementation of the carve-out transaction and the active management of non-performing exposures came with a significant drop in the NPLs level, pushing the ratio close to 5% (2018: 5.4%; 2017:8.2%).

Liquid Assets:

Liquid Assets
€0.5bn
flat y/y

During 2018 liquidity stood at comfortable levels, all liquidity metrics positioning well above the requirements.

Liquid assets (€ thousands)	31 Dec. 2018	% of total	y/y change	31 Dec. 2017	% of total
Cash	40,738	8%	0%	40,709	8%
Placements with Central Bank	135,502	26%	-23%	176,206	34%
Mandatory reserve	110,039	21%	-2%	112,781	22%
Overnight deposits	25,464	5%	-60%	63,425	12%
Due from other banks	43,033	8%	-56%	98,295	19%
Unencumbered Bonds	303,049	58%	48%	204,679	39%
Total Liquid assets	**522,323**	**100%**		**519,889**	**100%**

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LCR
142%

Liquidity Coverage Ratio was of 142% as at 31 December 2018 (2017: 158%), while the Net Stable Funding ratio positioned at 1.53 (2017:1.48). Loans to deposits ratio significantly improved y/y to 75% at 31 December 2018, from 85% at the end of 2017.

LtD Ratio
75%

At the end of 2018, the unencumbered bonds (bearing Romanian sovereign risk) held 21% of total assets (2017: 15%).

Tangible and intangible assets:

The tangible and intangible assets account for 2.8% of Bank's total assets (2017: 1.5%).

The total value of investments (additions of Property, Plant and Equipment, and Intangible assets) amounted to approximately €22 million in 2018, the largest share being associated to acquisition of the building where the Bank is headquartered.

Tax assets:

The tax audit which covered the corporate income tax for 2011-2016 ended with significant additional tax liabilities for the Bank. The main impact was related to derecognition of the fiscal loss carried forward from ATE Bank Romania, in the context of the spin-off transaction which was performed in 2013.

Following a very careful assessment of the practical chances of winning, the Bank has decided to challenge the outcome of the tax audit. Subsequently, in line with the provisions of IAS 12, the Bank recognized an uncertain tax asset of €8.9 million.

Linked to derecognition of the fiscal loss, the Bank derecognized in 2018 a deferred tax asset of €3 million.

Liabilities:

Liabilities
€1.3bn
+7% y/y

During 2018, the Bank continued to enjoy a stable and solid funding base. The comparative statement of liabilities, for 2017 and 2018 is as follows:

Liabilities (€ thousands)	**31 Dec. 2018**	% of total	y/y change	**31 Dec. 2017**	% of total
Due to other banks	133,053	10%	-37%	210,355	17%
Customers' accounts	1,100,560	84%	18%	932,923	76%
Derivative financial liabilities	308	0%	-77%	1,333	0%
Financial liabilities at FVPL	505	0%	4%	487	0%
Other financial liabilities	11,671	1%	8%	10,798	1%
Provisions for risks and charges	25,180	2%	49%	16,920	1%
Other non-financial liabilities	4,818	0%	-35%	7,375	1%
Subordinated debts	40,026	3%	-27%	55,013	4%
Total Liabilities	**1,316,122**	**100%**	**7%**	**1,235,204**	**100%**

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Customers' Accounts:

In 2018, the Bank posted robust accumulations in customers' accounts, especially in the 2nd part of the year, supported by a competitive offer in terms of pricing and an improved risk profile (due to change of control). All business segments reported positive y/y evolutions.

Starting with December 2018, the Bank attracts also deposits from the German market (fiduciary deposits). The Bank enjoys a balanced mix of its deposits base, with equal distribution among companies and individuals.

The tables below present the structure and the evolution of customers' accounts:

Deposits
€1.1bn
+18% y/y

Customers' Accounts (€ thousands)	**31 Dec. 2018**	% of total	y/y change	**31 Dec. 2017**	% of total
Current accounts & Sight Deposits	323,388	29%	27%	254,472	27%
Term deposits	757,285	69%	16%	654,554	70%
Collateral deposits	18,928	2%	-21%	23,897	3%
Fiduciary deposits	959	0%	n/r	0	0%
Total	**1,100,560**	**100%**	**18%**	**932,923**	**100%**

Local Deposits (€ thousands)	**31 Dec. 2018**	% of total	y/y change	**31 Dec. 2017**	% of total
Companies Deposits	546,521	50%	20%	456,158	49%
Individuals Deposits	553,080	50%	16%	476,765	51%
Total	**1,099,601**	**100%**	**18%**	**932,923**	**100%**

Interbank funding:

Due to Banks
€0.1bn
-37% y/y

At 31 December 2018, the amounts attracted from other banks held 9% of Bank's funding mix (i.e. % of total assets), as compared to 15% at the end of 2017.

Due to other banks (€ thousands)	**31 Dec. 2018**	% of total	y/y change	**31 Dec. 2017**	% of total
Sight deposits	53,806	40%	29%	41,775	20%
Term deposits	14,311	11%	-83%	84,715	40%
Sale and repurchase agreements with banks	64,936	49%	-17%	78,663	37%
Loans from IFIs	0	0%	-100%	5,202	2%
Total	**133,053**	**100%**	**-37%**	**210,355**	**100%**

Sub Debt
€0.04bn
-27% y/y

Subordinated debts:

At 31 December 2018, the Bank held a subordinated debt in amount of €40 million granted by the former parent (Piraeus Bank S.A. – Greece). The subordinated debt will mature in June 2023.

During 2018 a subordinated debt of €15 million was repaid at the contractual maturity.

Provisions:

At 31 December 2018, the Bank held provisions in amount of €25 million covering the legal risk associate mainly with past commercial practices. The stock of provisions increased y/y by 49% mainly on the back of additional provisions following the recently lost case against the consumer protection authority.

Provisions (€ thousands)	**31 Dec. 2018**	% of total	y/y change	**31 Dec. 2017**	% of total
Provisions for litigations	5,395	21%	-9%	5,930	35%
Provisions for potential claims	19,738	78%	95%	10,131	60%
Other Provisions	47	0%	-94%	859	5%
Total	**25,180**	**100%**	**49%**	**16,920**	**100%**

Equity
€0.13bn
-12% y/y

Equity:

Shareholders' equity closed the year 2018 at €129 million, 12% below the closing balance of previous year. Both, the current year result and re-measurement of financial assets under IFRS 9 brought large negative impacts in the equity position.

The structure of the shareholders' equity is presented in the table below.

Shareholders' Equity (€ thousands)	**31 Dec. 2018**	y/y change	**31 Dec. 2017**
Share capital	249,541	0%	249,766
(Accumulated loss) / Retained earnings	-137,273	14%	-120,270
Current Profit / Loss	-7,663		2,358
Other Comprehensive Income	-742		-461
IFRS 9 Remeasurement	-9,501		0
Loss carried forward	-119,368		-122,167
Other reserves	16,516	-4%	17,271
Total shareholders' equity	**128,784**	**-12%**	**146,768**

CAR
18.9%

During 2018, the Bank met the regulatory requirements for capital ratios, positioning well above the minimum limits established by the National Bank of Romania.

CET1
14.7%

At the end of 2018, the Bank posted a total capital adequacy ratio of 18.87% (31 December 2017: 21.81%; minimum required level: 16.90%) and a CET1 ratio of 14.69% (31 December 2017: 16.79%; minimum required level: 11.19%, respectively 13.64% for Tier 1 Capital ratio).

Income Statement:

Profit / (Loss)
-€7.7m

The Bank closed the year 2018 with a loss of €7.7 million. By including the loss associated to financial assets measured at fair value through other comprehensive income (FVOCI), the total comprehensive loss for 2018 was in amount of €8.4 million.

TC Inc. /(Loss)
-€8.4m

Despite the positive developments at the level of the core income, the 2018 result was significantly damaged by some exceptional losses owing mainly to legacy issues. The loss associated to the outcome of the tax audit and the additional provisions booked in relation with potential liabilities from past commercial practices, were the main drivers of 2018 loss.

The table below presents the comparative income statement for 2017 and 2018:

Income Statement (€ thousands)	**2018**	**2017**	y/y %
Net Interest Income	44,415	37,066	20%
Net Fee and Commission Income, out of which:	18,773	25,243	-26%
- Income from Assets Administration	9,783	16,514	-41%
FX Trading	9,305	8,243	13%
Other Operating Income /(Expenses)	(2,172)	(3,351)	-35%
Net Operating Income	**70,321**	**67,201**	**5%**
Staff Costs	(32,979)	(26,639)	24%
Administrative Costs	(29,548)	(26,460)	12%
- Rebranding Costs	(2,134)	0	
Depreciation and amortisation	(5,769)	(5,938)	-3%
Operating Costs	**(68,296)**	**(59,037)**	**16%**
Pre-provision income	**2,026**	**8,163**	**-75%**
Loan provisions	(6,603)	(6,822)	-3%
Recoveries from written off loans	8,201	9,230	-11%
Other provisions	2,230	(8,270)	-127%
Profit before exceptional items and taxes	**5,854**	**2,302**	**154%**
Tax Audit Impact	(5,092)	0	
Exceptional Provisions for potential liabilities	(8,300)	0	
Loan Portfolio Sales	2,970	0	
Exceptional items	**(10,422)**	**0**	**n/r**
Profit / (Loss) before tax	**(4,568)**	**2,302**	
Current tax	(127)	0	
Deferred tax	(2,967)	56	
Profit / (Loss) after tax	**(7,663)**	**2,358**	**n/r**
Other Comprehensive Income / (Loss)	(742)	(461)	61%
Total Comprehensive Income / (Loss)	**(8,404)**	**1,897**	**n/r**

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NII
+20% y/y

Net interest income increased by 20% y/y, reflecting volume growth in both customer loans and deposits, and the favourable interest rate environment. On income side, the interest income related to loans grew y/y by 15% taking advantage on improved performance in new lending and the upward path of the interest rates. On funding side, the interest paid on wholesale funding dropped y/y by 60% reflecting significant changes in the funding mix, while costs on customer accounts increased y/y by 30% owing to robust growth in deposits and improved pricing competitiveness.

NFC (non-AA)
+3% y/y

Net Commission Income, other than those from assets administration, increased y/y by 3%, with good y/y developments in cards, factoring and LGs. Income from assets administration significantly decreased y/y (41%) due to lower volumes in relation with Piraeus Bank S.A (owing to large sales and write offs in 4Q17) and the remuneration scheme implemented in 2018. The decrease was compensated only partially by the administration of Eurobank loans.

Incomes from swap deals decreased y/y by 28% reflecting the reduction in the swap volumes in the context of structural changes in the funding mix. Incomes from clients' FX transaction and exchange house dropped y/y by 11%, while the results from proprietary trading and revaluation of FX and derivatives open position posted a flat evolution.

Costs
+16% y/y

Underlying Costs
+5% y/y

Operating costs increased y/y by 16%, on the back of increased staff and administrative costs. The increase in staff costs is partially explained by the retention bonus which was paid in the context of ownership change (€4.1 million, fully covered by provisions i.e. a similar amount was released from the specific provisions) in order to ensure continuity at the level of the key employees. In addition, the second part of the year came with some increases in staff costs linked to the initiatives supporting the Bank's new strategic directions. The 12% y/y increase in administrative expenses was largely justified by costs associated to rebranding process and other strategic initiatives. Considering that significant efficiency gaps persist, in early 2019 the Bank decided to run an ample restructuring process aiming to drive the business platform to sustainable profitability.

At the side of large impact associated to the implementation of IFRS 9 and further calibration of impairment methodologies, the cost of credit risk remained almost flat in 2018, loan provision charges decreasing by 3% y/y.

Recoveries from written off loans declined y/y by 11% but remained an important contributor to the overall profitability. New settlement criteria have been approved in 2018 aiming to boost the recovery activity.

The gain realized on carve-out transaction compensated part of the large impact associated to the tax audit and additional provisions booked in relation with potential liabilities which may derive from past commercial practices.

The 2018 result should be seen as transitional in the context of Bank's transformation journey. Many things have been solved, while many other structural changes are in course of implementation, paving the way forward.

6. Internal Control over Financial Reporting

The internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Bank's financial statements for external reporting purposes, in accordance with International Financial Reporting Standards (IFRS). The internal control over financial reporting includes the disclosure controls and procedures designed to prevent misstatements.

The main risks in financial reporting are that either financial statements do not present a true and fair view due to inadvertent or intentional errors (fraud) or the publication of financial statements is not done on a timely basis. These risks may reduce shareholders confidence or cause reputational damage and may have legal consequences. A lack of fair presentation arises when one or more financial statement amounts or disclosures contain misstatements (or omissions) that are material.

Misstatements are deemed material if they could, individually or collectively, influence economic decisions that users make on the basis of the financial statements. To confine those risks of financial reporting, the Bank has established specific internal controls with the aim of providing reasonable but not absolute assurance against material misstatements in its financial statements.

Controls within the system of internal control over financial reporting are performed by all business functions and infrastructure functions with an involvement in reviewing the reliability of the books and records that underlie the financial statements. However, the internal controls over financial reporting involve staff based mainly in the following functions: Finance, Data Management, IT, Operations and Risk.

Finance function is responsible for the periodic preparation of the financial statements and operates independently from the business units. Finance function has control responsibilities which contribute to the overall preparation process:

- Finance specialists are responsible for reviewing the quality of financial data by performing validation and control. They are in close contact with business and employ their specific knowledge to address financial reporting issues arising on products and transactions, as well as validating reserving and other adjustments based on judgment.

- Finance is responsible for activities which include the preparation of financial and management information, forecasting and planning, and financial regulatory reporting. Finance sets the reporting timetables, performs the aggregation processes, effects the elimination entries for inter and intra group activities, controls the period end and adjustment processes, compiles the Bank financial statements.

- Finance is responsible for consistent interpretation and application of International Financial Reporting Standards within the Bank. Finance provides accounting advice to business units, and is responsible for the timely resolution of specific accounting issues.

- Finance is responsible for providing guidance for valuation methodologies, undertaking in the same time the valuation control work, challenging valuation results.

- Tax function is responsible for producing income tax related financial data.

- The internal controls over the financial reporting is also importantly supported by data Management, IT, Operations and Risk. Although these functions are not directly involved in the financial preparation process, they contribute significantly to the production of financial information:

    - Data Management and IT ensure that sub-ledger information and general ledger postings are properly supported by robust data management framework and appropriate infrastructure.

    - Operations structure is responsible for confirming transactions with bank counterparties and performs reconciliations of nostro account balances.

    - Risk is responsible for developing policies and procedures for managing credit, market, legal, liquidity, operational and counterparty risks. Risk identifies and assesses the adequacy of the provisions for credit and operational risks.

7. Risk Management

An efficient risk management is considered vital for the Bank in order to achieve its strategic objectives and to ensure quality returns to its shareholders. The Bank places particular emphasis on the effective monitoring and management of risk, with a view to maintaining stability, financial soundness and continuity of its operations. In this context, the risk management framework includes the sum of all strategies, policies, procedures, governance and systems that the Bank develops and implements in order to adequately identify, measure, monitor, control and mitigate risks deriving from its operations, while maintaining their level within the risk appetite and risk-bearing capacity of the Bank.

In addition to the effective risk management objective, the risk management activity and internal control system have been developed to meet external requirements and, in particular, regulatory requirements.

The Risk Strategy is the way to identify and manage significant risks of the Bank, which would occur in the normal business conditions and to formalize a robust framework for managing and controlling their conformity with the objectives of the general business strategy.

The main objectives of the Risk Strategy are the following:

- To support the business development by ensuring that business objectives are pursued in a risk-controlled manner, with due consideration for the stated risk appetite
- To ensure Bank's sustainability as a going concern, through the implementation of an efficient system for risks analysis, measurement, monitoring, reporting and mitigation
- To encourage risks diversification with the aim of keeping a balanced risk-return profile for all activities
- To maintain adequate capital levels as per regulatory requirements and internal assessment
- To promote a strong risk awareness and risk management culture

The Risk Strategy is based on three main dimensions: risk appetite, risk profile and risk bearing capacity.

The risk appetite is determined so as not to exceed the risk capacity, given current business conditions, and ensuring the achievement of Bank's strategic objectives. In parallel, it ensures that under adverse business and macroeconomic conditions (crisis scenarios), the risk capacity can absorb unexpected losses and/or commitments, safeguarding a minimum level of solvency as well as protecting the depositors' interests.

The risk profile is defined as the level of risk exposure, at a given point in time, per risk type, as identified by the Bank. The risk profile, assessed through the risk matrix, is not a mere static measure, but must provide a dynamic assessment of the evolution of risks. The purpose of the risk profile is to determine the dimension of each significant risk and the total risk level, based on key risk indicators.

The risk bearing capacity acts as a constraint on the risk appetite, which in turn affects the Bank's risk profile.

The internal risk management framework covers the following:

- The identification, assessment/measurement, management, monitoring and reporting of risks.
- The establishment, allocation and monitoring of risk limits (including regulatory) in collaboration with the responsible Business Units (risk owners), as well as the escalation process regarding breaches.
- The development and implementation of methodologies for supporting the risk management framework, including early warning systems, credit models and risk adjusted pricing.
- Guidelines and tools/methodologies for risk management purposes.
- The stress testing framework employing scenarios adjusted to the current business environment, across the range of activities and risk types of the Bank.
- The estimation of capital distribution across different business units.
- The implementation of risk management reporting requirements (internal and external).
- The process of assessing the Bank's capital adequacy against risks, in accordance with both idiosyncratic factors, such as Business Plan, risk profile and appetite, as well as systemic factors, e.g. macroeconomic environment, market expectations.
- The disclosure of information regarding capital adequacy and the risks undertaken and managed, in order to ensure valid public disclosures and compliance with the regulatory requirements.
- The risk data aggregation capabilities and the risk reporting practices.

The main risk categories to which the Bank is exposed are: credit risk, market risk, liquidity risk, operational risk, reputational risk, strategic risk, leverage risk, and capital adequacy.

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation or the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows.

The Bank recognizes and manages the intrinsic credit risk in all products and activities. The Bank has appropriate and adequately defined credit-granting criteria, which reflect the market targets and include thorough evaluation of borrowers, counterparties, and guarantors, as well as the purpose, the type of funding, the type of collateral / security and the source of repayment.

The Bank has clearly defined policies and procedures of approving new credit as well as restructuring, renewal, refinancing of existing credit or write-offs while handles possible exceptional deviations with the utmost attention. The Bank has limits structure that allows for grouping and comparison of credit limits for different types of risk exposure at various levels, such as borrower level (including connected borrowers), counterparty level, groups of interrelated borrowers level, sector level and product level.

Regular stress testing and scenario analysis are performed, in order to identify possible events or future changes in economic conditions that could have unfavourable effects on a Bank's credit exposures.

The Bank's concentration risk is monitored both at the level of economic activity of the business portfolio (on and off balance sheet exposures) under primary classification NACE II, and at the individual level, examining exposures to larger customers. For risk assessment, the concentration index Herfindahl-Hirschman (HHI) is used.

Proactive and efficient management of problematic credit issues and cases that require special handling in a timely and efficient manner, including corrective actions as required.

The Bank's credit risk strategy takes into account the following characteristics: type of exposure, economic sector, ownership type, counterparty category, residence, geographic area, currency, initial maturity and special exposures.

- Type of exposure - the Bank intends to lend on short (below 1 year), medium (1-5 years) and long term (above 5 years).
- Economic sector – the Bank particularly aims to channel the lending to financially sound companies in sectors with increased potential.
- Ownership type: – the Bank will grant loans to private and public entities.
- Counterparty category – The Bank will place equal focus towards Corporate, Mid-Market, Small & Medium Enterprises and Households.
- Residence – The Bank will grant loans to residents and non-residents.
- Currency – The bank will only offer loans in the main currencies (exotic currency operations are forbidden). The Bank can also grant multi-currency loans.
- Initial maturity – loans to Corporates and SME's can be granted on 12 months up to 15 years, while loans to individuals can be granted on 6 months up to 30 years, depending on the facility type.
- Exposures to related parties. Specific limits are set within the procedure on related parties.
- Large exposures - Specific limits are set within the procedure on the identification, monitoring and reporting of large exposures.

In order to diminish and control credit risk, the Bank takes the following measures:

- Activities such as loan analysis and approval, loan disbursement, loan follow-up and collection/workout, are treated separately, so that each activity is taken over by a distinct structure of the Bank;
- Internal activities are mapped to business lines, while identifying the organizational structures involved in those activities;
- In order to cover all the risks that can appear in the operational lending flows, the Bank issued policies and detailed procedures for different loan categories;
- Lending and risk management activities are performed by specialized personnel;
- The personnel is accordingly allocated to specific areas of lending: analysis, follow-up, collection etc.;
- Regular training is provided to people involved specific areas of lending;
- Large exposures (exposures above 10% of own funds) are approved by the appropriate level of competence, in accordance with the internal regulatory framework and the governance principles of the Bank;
- For the management, control and mitigation of credit risk, the Bank uses credit limits.

Moreover, the Bank implemented specific processes for the measurement, assessment and monitoring of credit risk, based on the following:

- The credit risk profile, using key indicators and adequate limits
- The credit risk indicators to assess the evolution and quality of credit portfolio
- The dimension and evolution of credit risk minimum capital requirements
- The dimension and evolution of credit risk internal capital
- The methodology for stress testing on credit risk.

Market Risk

Market risk is the risk of incurring on-balance and off-balance sheet losses due to adverse market movements in prices (such as, for example, share prices, interest rates, and foreign-exchange rates).

The Bank has clearly defined policies and procedures in order to ensure the active management of market risk. The Bank has the appropriate systems in order to measure and assess market risk while keeping up with current regulatory and banking environment challenges.

Every activity that exposes the Bank to market risk is adequately captured in the systems while any new product is reviewed in advance. The Bank regularly assesses the horizon that allows any material market risks to be hedged or the relevant positions to be liquidated (regular assessment of market liquidity).

The Credit Valuation Adjustment (CVA) framework of the Bank clearly addresses the procedure followed for CVA calculation on derivatives portfolios from all involved desks, their roles and responsibilities. The Bank has adequate arrangements in place for active monitoring and managing CVA for both accounting and regulatory purposes.

Interest rate risk strategy includes the following:

- An indicator to quantify the change in net interest income as a result of interest rate fluctuations (i.e. Earning at Risk);
- An indicator to quantify the impact of a parallel shift of the yield curves by 100 bps on the present value of the bank's assets and liabilities, for both Trading and Banking book (i.e. PV 100);
- An indicator to quantify the potential change of the economic value of the bank due to interest rates fluctuations by 200bps (i.e Duration Gap – Dgap);
- Limits monitored by Treasury Back office Department and Risk Management Department
- Regular reports to the management body on limits observance and on the evolution of the risk profile;
- Stress test scenarios to assess the impact of possible adverse evolutions of interest rates on returns.

Exchange rate risk strategy takes into consideration the following:

- An indicator to commensurate the decrease of income caused by adverse movements in exchange rates: the level of potential loss;
- Trading limits, according to the risk profile such as: intraday, O/N, daily and monthly stop-loss, and limits monitored by Back-Office Department and Risk Management Department;
- Stress test scenarios for stressed market conditions to assess the impact on returns of potential extreme volatilities of exchange rates;
- Internal VaR –type model under the internal capital adequacy assessment process;
- Regular reports to the management body on limit observance or limit breaches, as well as on the evolution of the risk profile.

Liquidity risk

Liquidity risk is the current or future risk of negative impact on profits and capital, determined by the Bank's inability to meet its liabilities when they become due.

The Liquidity Management Strategy defines the way to manage the liquidity, the reporting system, and the preventive and corrective actions which should be taken to avoid crisis situations.

The Bank monitors the following:

- Daily evolution of short-term liquid assets that can be sold or used as collateral to raise funding.
- Funding composition, aiming at maintaining sufficient differentiation of funding sources (e.g. on a borrower level, type of funding and currency).
- Asset and liability maturity profile aiming to recognizing positive or negative differences among assets and liabilities in the various time zones.
- Cost of liquidity
- The liquidity position by currency and the foreign currency funding needs.
- Internal and regulatory liquidity risk ratios and ratio limits in order to comply with the regulatory framework as well as inform the management body about the Bank liquidity sufficiency.

The Bank performs on a regular basis, stress testing simulations in order to assess the effect of extreme possible conditions in its liquidity and has in place a Contingency Funding Plan that ensure the early identification and the prompt handling of a liquidity crisis, through predetermined procedures and alternative courses of action

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and includes legal risk.

The Bank acknowledges its exposure to operational risk, which stems from its daily operations and the implementation of both business and strategic goals. Operational risk is assumed and managed at a structural level, as close as possible to the source of the risk by the development of a common and comprehensible "culture" regarding operational risk management across all organizational levels.

The management of operational risk covers all business and support functions of the Bank targeting at both the control and mitigation of the risk. The operational risk management framework, documented through methodologies and processes, is consistent to the identification, measurement, monitoring, control and mitigation of risk.

The operational risk management framework includes the Risk and Control Self-Assessment, the operational risk events / losses collection, the monitoring of the action plans, the key risk indicators, and the calculation of the internal capital.

The Business Continuity Plan (BCP), constitutes a clear and organized approach for the mitigation of any negative impact that may affect the business continuity under crisis conditions. The implementation of the Business Continuity Plan, ensure the smooth and uninterrupted operation of the Bank, the effective treatment of operational risk and the full compliance with the regulatory framework.

The operational risk management framework includes the systematic monitoring of data that are related to operational risk and the loss data collection process. Adequate information is provided at all levels of the organizational structure in order to facilitate effective decision-making. Insurance policies are in place in order to mitigate efficiently and effectively the exposure of the Bank to operational risk.

Reputational risk

Reputational risk is defined as the present or future risk of losses in returns or in capital due to adverse perception of the image of the Bank by customers, counterparties, shareholders, investors or regulators.

With respect to the efficient management of reputational events, the Bank aims to:

- Identify on a continuous basis the potential triggers of reputational risk;
- Monitor the key risk indicators that commensurate the level of risk;
- Maintain a structure to be responsible for the identification of reputational risk triggers and of adequate measures for crisis management, for the coordination of actions taken by relevant persons in order to reduce/eliminate the effects of potential crisis and for the implementation or execution of executive decisions;
- Ensure business continuity in unforeseen circumstances;
- Monitor the image of First Bank in mass-media and identify any rumour that can result into reputational risks, and especially those rumours that can eventually affect the liquidity of the Bank.

Strategic risk

Strategic risk represents the current or future risk of negative impact on profits and capital determined by changes in the business environment or by not favourable business decisions, by the inadequate implementation of decisions or by the absence of reaction to the changes in the business environment.

The Bank manages the strategic risk through robust internal control mechanisms at the strategic level of its corporate governance. This covers all aspects and processes of the strategic decision-making. The Bank tightly and effectively monitors the economic outlook and the business environment in which it operates. Budgets and business planning are regularly readjusted in order to reflect the changing economic conditions.

Leverage risk

Leverage risk is the risk resulting from bank's vulnerability due to leverage or contingent leverage that may require unintended corrective measures to its business plan, including distressed selling of assets which might result in losses or in valuation adjustments to its remaining assets.

The main strategic objectives with potential impact on the risk of excessive leverage are:

- maintaining the capital at pre-existent levels;
- organic growth of capital by restoring the capacity to generate profit;

The management of the risk of excessive leverage is performed by measuring and monitoring a specific indicator.

Capital Management and Capital adequacy

The Bank recognizes the importance of maintaining a strong capital base against risks undertaken. The capital adequacy management target is to assure a strong capital base, capable to support the Bank's business/strategic plan(s).

The Bank calculates capital requirements against all types of risks it undertakes and reports on its capital adequacy in full compliance with all applicable regulatory requirements. The risk and capital adequacy disclosures are at all times transparent, credible and reliable while adhering to best practices.

Every activity that exposes the Bank to credit, market and operational risks subject to capital requirements is adequately captured and processed in the Bank's systems. Capital adequacy is managed in a dynamic manner by taking into account prevailing and forward looking economic conditions.

In accordance with Article 148 of the Emergency Ordinance no. 99/2006 on credit institutions and capital adequacy, as subsequently amended and NBR Regulation no. 5/2013 on prudential requirements for credit institutions, the Bank has in place a process for internal assessment of capital adequacy to risks (ICAAP). The internal process for the assessment of capital adequacy to risks is integrated in the administration and management process of the Bank and in its decision-making culture. The Bank performs periodically an evaluation of internal capital adequacy to risks by comparing the available own funds with internal capital requirements. The general framework for ICAAP is updated annually and the capital adequacy monitoring is performed on a quarterly basis.

8. Business development - innovation

During 2018, the Bank continued on the Digital Transformation path, aiming to further improve the clients' experience at any interaction point.

Placing the needs of our clients in the center of any enhancement initiative, the Bank have also directed its attention to the payment of various debts towards state institutions / authorities. Thus, it was created together with Ghiseul.ro a dedicated menu within the internet banking application, which allowed obtaining information and paying such taxes or fines with just a few clicks and zero commissions, provided that the beneficiary of the payment is enrolled in Ghiseul.ro application.

With this new option offered to its clients, the Bank has brought again a novelty in the market, being actually the first bank which integrated the information about the debts towards state institutions / authorities in its internet banking platform.

Focusing on better understanding the transactional patterns and the personal finances management needs of its clients, the Bank launched a new transactional offer for individual clients. The new transactional packages have the purpose of optimizing the costs in the relation with the bank, while satisfying a broad range of needs belonging to individuals looking for permanent control over their personal budget or to individuals trying to reduce the time allocated to their usual or recurrent payments or to individuals searching for financial independence. Accessing these transactional packages, the loyal customers receiving recurrently their income into a First Bank account are also having the monthly fee waived.

Aiming to simplify also the life of its borrowers, the Bank created a mechanism for automatically approving the unsecured facilities (personal needs loans and credit cards). This way the good profile clients can obtain on the spot the financing they need, without having to make several visits to a First Bank branch.

Innovation and product diversification continued with the launch of a new type of saving product for our customers, "Eagle Placement", a term deposit with attractive interest rates and early redemption features.

The Bank continued to diversify its funding sources through other markets & channels. The year 2018 marked the entry into German market by implementing fiduciary deposits, based on a partnership with a Fintech company that provides an online marketing platform. This is how the Bank managed to secure a new funding channel on Europe's largest retail deposits market.

With respect to investment products, during 2018 First Bank has completed the alignment to the EU 65/2014 Directive – "MIFID – Markets in Financial Instruments Directive", transposed into Romanian legislation by the Law 126/2018, thus being able to offer in 2019 a wide range of products as bonds, both issued by the Romanian State as well as international, FX Margin Trading, equities and capital markets products.

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9. Human Resources

At 31 December 2018 the total number of employees was 1,294 (31 December 2017: 1,263) while the number of active employees was of 1,227 (2017: 1,188). Active employees are employees present at work i.e. excluding maternity leaves and long - term sick leaves.

During 2018, the Human Resources Division remained focused on employee engagement, efficient training, career management, managerial development, smooth transition to the new ownership and improved communication.

10. Corporate Social Responsibility (CSR)

During 2018, the Bank has promoted responsible business practices targeting to ensure sustainability on both, the Bank and its stakeholders – clients, shareholders, employees, and communities. The CSR actions were focused on causes that matter for communities in which the Bank operates – social support, education and ecology.

11. Conclusions and outlook for 2019

The change of control came with an improved risk profile, allowing the Bank to promote a stronger business message across all customer segments. The lending volumes expanded more robustly taking advantage on better calibrated policies, reduced response time and improved competitiveness in terms of pricing. On funding side, the Bank has strengthened its customers' deposit base, thanks to the outstanding performance in all business segments. Rebranding to First Bank image and values has received a very positive answer from the market, making the Bank feeling responsible to deliver in line with stakeholders' expectations.

The volumes' growth, together with the structural changes in asset and funding mix, led to a significant advance in the net interest income. By signing a new servicing agreement the Bank succeed to compensate an important part of the natural decrease of the incomes from assets administration. The efficiency lags persisted in 2018, too, assigning the turnaround process as an objective need. Some legacy issues put a heavy burden on 2018 result, throwing it in the red zone. The Bank responded very strongly aiming to rapidly align its operations towards sustainable efficiency.

In light of the ample restructuring and business transformation processes, backed by strong investments in technology and a solid capital base, the outlook for 2019 looks positive, placing the Bank in a good position for challenges to come, while remaining committed towards a responsible and efficient growth.

Nicolae Danila

Chairman of the Board of Directors

R.C. J40 / 1441 / 1995
FIRST BANK S.A.
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BUCURESTI

Dominic Bruynseels

Member of the Board of Directors

Executive President

FIRSTBANK

Board of Directors' Proposals:

1) Considering the present report and the opinion of the external auditor, we submit for the approval of the General Assembly of the Shareholders of First Bank the financial statements prepared according to the International Financial Reporting Standards as adopted by the European Union, for the period ended December 31, 2018, which include:
   - The statement of financial position;
   - The income statement;
   - The statement of comprehensive income;
   - The statement of changes in equity;
   - The cash flow statement;
   - Notes to financial statements.

2) Carrying forward the accounting loss registered in the financial year 2018, in amount of RON 35,659,039.62, following to be covered from the profits of future financial years.

3) Discharging the Board of Directors for the financial exercise ended as of December 31, 2018.

Nicolae Danila

Chairman of the Board of Directors

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Dominic Bruynseels

Member of the Board of Directors
Executive President

Appendix: 1

NON-FINANCIAL STATEMENT

Description of the business model

First Bank holds a market share of c.1.5% in terms of assets. The Bank operates as a universal bank, offering a large range of products and services, which covers a wide diversity of saving products, financing for individuals and companies, factoring, financial leasing, co-financing for European funds and capital market services. The Bank has a fully-fledged digital platform providing access to a wide spectrum of banking services.

The Bank operates under a customer-focused business model, having the customer in the heart of all activities. The Bank focuses on individual customers, small and mid-sized companies aiming to deliver exceptional customer service. The customer service will be the foundation of the relationship the Bank wants to develop with its clients

The main pillars of our Strategy are the following:

- Customer-centric delivery, with deep customer knowledge
- High quality human resource operating to high levels of effectiveness
- Technology deployed for innovative front-end propositions and efficient back end using data and analytics
- Disciplined and compliant execution and governance providing consistent and sustainable profitability
- Contributing to the development of Romania

The Bank aims to secure its long-term competitiveness by achieving operational excellence. The objective remains to deliver organic capital generation through sustainable profitability. The Bank targets a strong capital position, striving to maintain adequate capital buffers aligned to its risk profile. The Bank aims to secure a stable liquidity position, having as main pillar customers' deposits, maximizing on core deposits through high quality and effective servicing.

The Bank wants to attract, retain and engage qualified professionals, capable of providing high quality services to customers and guaranteeing the sustainability and the success of the business.

Corporate Social Responsibility

At First Bank, being a responsible business means that we operate with integrity, transparently and securely. It involves creating a culture for our employees that is inclusive, inspiring and supportive. It allows us to innovate and deliver smarter and convenient services for our clients.

These allow us to make a positive contribution to society, both through the services we provide as well as through our CSR programs. Further, it gives us the opportunity to work collaboratively with our business partners to support their own CSR agendas.

i. Delivering for our clients

We create value for our clients by delivering what they expect in the most convenient way, making processes smarter and customer experiences better. We do this by using smart technology and the skills and expertise of our people.

We listen and respond to what our clients tell us, understanding their changing needs and working with them to ensure we meet their expectations. We strive to deliver operational excellence and are committed to maintaining and improving the services we provide to our clients.

To provide us with an understanding of key client satisfaction, we have implemented regular feedback mechanisms. This helps us to identify where we need to work harder and where there is the potential to add value to our clients' operations.

ii. Our people and culture

Attracting and retaining talent:
Our people are our biggest asset. To recruit and retain the best talent we need to provide a workplace that is inclusive, inspiring and supportive. We want our employees to be empowered and motivated, enabling them to make better decisions and respond to our clients' needs effectively. In this respect, we have created an environment in which every employee may have access to a variety of developmental actions. For the high potential and talented employees we continued the mentoring program where selected mentors and mentees participated at different developmental actions and had specific objectives to improve the leadership capabilities.

A large variety of benefits may be accessed by employees on a new flexible benefits platform that allow them to choose the benefits in accordance with their own needs. A new platform has been implemented in order to enhance the communication and collaboration between employees, and helped to secure a more trustful climate. Each employee may become an ambassador of internal communication, may participate in monthly editorial meetings, to write articles and to share their opinion on different subjects of interest with rest of the colleagues in a more open way.

Attracting talents is a challenge for the most industries; therefore we have developed policies that promote an objective assessment of internal and external candidates according to the selection criteria established. Priority is given to existing employees as part of the Bank's efforts to support and promote its own human resources. In this respect, all openings are announced to the employees and they are encouraged to apply. There are developed transparent selection criteria and there are clear definitions of job categories and hierarchical levels, as well as the potential career path.

The recruitment process is based on adequate procedures, free of discrimination, utilising specific candidate selection systems by using modern appraisal and selection instruments. These instruments may vary according to the candidate's educational and experience level and include both competency tests and professional tests.

Embedding our values:
We have a common set of values which are reflected in our policies and embedded across our business. These values and their associated behaviors shape who we are as a business and underpin our success. Our ethical code was developed in line with our values setting out our commitments and ensuring that our employees speak up if they see behaviors that are not consistent with our values.

Talent management:
We work hard to build and retain strong, stable teams and leadership. We use this in conjunction with our performance management system to identify high performing individuals. We recognise that to deliver excellent service to our clients we need to ensure that our employees in our operations are equipped with the right skills. We develop training for our people including the induction, class and e-learning programs. These programs give employees the opportunity to develop the skills to create and sustain high performing teams and navigate the challenges they may face within their business.

Diversity and inclusion:
Having a diverse workforce brings fresh perspectives and helps us to create truly innovative solutions that benefit our clients and help improve our own market competitiveness. We are committed to developing an inclusive culture that reflects the diversity of our clients, their customers and the communities in which we work.

Health and safety:
By making sure that we take care of the health and safety of our people we reduce risks across our business, protecting our reputation and that of our clients. We have an established health and safety management system and all our employees have to complete training as part of their induction.

Employee wellbeing:
We recognise that a healthy, motivated workforce is good for business, reducing sickness absence and increasing retention rates. We're focused on helping our people to more easily manage their work and personal lives. Our HR policies are designed to help our people recharge, be there for their families, meet their commitments and support their personal challenges.

Reward and recognition:
We want to retain the best talent across our business and believe in recognising and rewarding employees who put our values into practice. In 2018 we have continued to enhance our incentive systems correlated with sustainable results, being consistent with the business strategy objectives, and long-term interests of the Bank. The remuneration policy aims to create a framework for the remuneration and supports performance-driven culture, which brings the Bank's objectives in line with the stakeholder's objectives (employees, management and shareholders) and also motivates employees to continue acting on the Bank's best interest.

Employee engagement:
Listening to and valuing the opinions of our people is good for productivity and it helps us shape our future business. We engage with our employees through a number of different ways, ensuring they receive regular updates including those relating to the performance of our business. We actively encourage their feedback as they have a clear view of our operations and their ideas can help us deliver for our clients.

Collective bargaining and freedom of association:
The Bank respects all principles governing human resources. All human resources regulations are driven by human rights' principles. The Bank offers equal opportunities to its employees and applies similar policies no matter sex, race, colour, religion, sexual orientation, nationality, physical aptitudes, etc. Equal opportunities refers to unitary, correct and impartial treatment to all employees and development of working conditions to consolidate and respect diversity, ensure dignity at work, in a broader vision of the society. Such principles are incorporated in the Collective Labour Contract.

iii.Business conduct and ethics:

Our reputation for integrity is one of our most important assets. We hold ourselves to standards that not only meet those required by the laws and regulations that apply to us, but also to our principles, which are rooted in exceeding our clients' expectations. We believe in operating with integrity, both in our business decision making and the conduct of our employees. Our code of conduct sets out basic principles to guide employee conduct. The code is supported by employee conduct policies and programs and reinforced through regular training.

We have zero tolerance in relation to illegal or unethical conduct and this is articulated in our relevant policies, including policies on conflicts of interest. Our policies prohibit any transaction, which could constitute a bribe or a corrupt payment to or from a public official or body, or a private entity or individual.

Conflicts of interest
The specific internal policy provides advice/ guidance to the Bank's employees so as to identify situations that present potential conflicts of interest and support them to manage these conflicts. The main measures, procedures & mechanisms for the proper monitoring and minimization of the risk are: separation of responsibilities, clear responsibilities of the management structure on the internal control line, independence of internal control functions, code of conduct, staff remuneration, gifts and personal benefits, personal transactions, transactions with persons in special relationship with the Bank.

Whistle Blowing
The Whistle Blowing concept was developed and implemented in the Bank in order to proactively establish a communication channel for disclosing anonymously reports / complaints about a possible illegitimacy, serious irregularity or offence, which is detected with regard to an employee, collaborator or affiliated person. A basic and inviolable attribute of the Whistle Blowing Policy is the protection of the anonymity and the confidentiality principle of the data of the individuals submitting such reports, as well as, the assurance that their current position and their future professional development shall not be affected as a result of the related audit report issued. The Whistle Blowing process is managed by the Bank's Internal Audit function and has as beneficiaries the Chair of the Audit Committee and the Head of Internal Audit.

Anti-corruption and bribery

First Bank is committed to conducting the activities in accordance with all applicable laws, rules and regulations and the highest ethical standards, and this commitment is embodied in the Code of Business Conduct and Ethics. Bank's personnel is strictly prohibited from proceeding in any Improper Payment Activity. The Bank has adopted a specific policy to prevent any such case and has taken the necessary measures to combat bribery acts.

Know your customer and Anti Money Laundering

The Bank has set up KYC & AML policies and procedures in accordance with legislation and best practices. The Bank oversees to the preservation of reputation and brand value of the Bank towards national and international authorities. We target to the long term success and stability by attracting and managing funds obtained only from legal sources.

Respecting sanctions and embargoes

The Bank has a responsibility to screen, evaluate, and, if required, observe laws and binding requirements related to financial and trade sanctions set by the EU, BNR and other authorities such as the US Office of Foreign Assets Control (OFAC). The Bank has set up policies, procedures and a dedicated monitoring system to monitor the transactional behavior of customers and detect possible activities suspicious of Money Laundering or Terrorism Financing

Personal data protection

Maintaining the right balance between the value of customer data and protection of the individuals is important for the Bank. The Bank implemented specific actions to ensure compliance with the European Regulation no.679/2016 on the protection of the natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation).

Digital security

The Bank is fully compliant with all Romanian regulations regarding the IT security. The digital security is under the responsibility of Chief Information Security Officer. To fight cybercrime, the Bank has implemented solutions to protect the assets and transactions of its customers (Individuals and Corporates). The Bank constantly strives to adapt its IT security measures to enhance the protection of its customers against continuously growing information security threats.

iv.Running a resource-efficient business:

We are committed to tackling climate change and protecting our natural resources and so we take a proactive approach to good environmental management. We know that our environmental performance is important to our clients, our employees and other stakeholders and can create financial savings to support the long-term sustainability of our business.

As a predominately office-based business, our main environmental impact comes from carbon emissions generated from energy use in our offices and through business travel and so this is where we concentrate our efforts. In addition, although our water usage is not significant, we have made efforts towards conserving this resource. We also manage our resource use and waste management where possible.

Direct environmental impacts

We aim to reduce the environmental impact of our operations through the management of energy, paper and water consumption as well as reducing our overall emissions and waste. We are committed to:

- Reduce our energy consumption through a focus on energy efficiency solutions that optimize the usage in our building and minimizes the impact of our data centers;
- Reduce our office paper consumption and minimize the use of paper for our marketing and distribution activities whenever allowed;
- Reduce our water consumption in all facilities;
- Reduce the waste we generate and recycle our waste, including our IT waste. We aim to increase the use of recycled material in our operations;
- Reduce the emissions derived from our business travel by minimizing the number of long distance trips of our employees, stimulating the use of alternative means of communication. Whenever we are not able to avoid business trips we will seek to do these using the less impactful transportation means;
- Seek suppliers that support us in this journey through their solutions and business practices.

We believe that behavioral change is pivotal to reduce our environmental impact. Therefore, we will continuously seek to raise awareness amongst our employees and business partners of the importance to make environmentally conscious choices and follow our environmental principles.

Indirect environmental impacts

In addition to reducing our operational environmental footprint, we strive to minimize our indirect impact on the environment by offering products and services that promote environmentally-friendly behavior. We want embedding corporate responsibility considerations into our business activities. Where relevant, environmental aspects are taken into account for the development of new products as well as included in the criteria we use for credit decisions.

v.Community investment programs

We add value to our country wide communities in a number of ways, as an employer contributing to the economy, creating jobs, using local suppliers and through the services we deliver. We build philanthropy on what matters. We are committed to building access to better futures for underserved individuals and communities. We partner with best in class organizations and alongside support of our charity partners; we actively encourage employees to give regularly on an individual basis to the causes they care about.

Nicolae Danila

Chairman of the Board of Directors

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Dominic Bruynseels

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