# MARFIN BANK ROMANIA SA

## FINANCIAL STATEMENTS
## FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2018

## PREPARED IN ACCORDANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION

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# INDEPENDENT AUDITOR'S REPORT

To the Shareholders,
Marfin Bank S.A.

## Report on the Audit of the Financial Statements

### Opinion

1. We have audited the financial statements of Marfin Bank Romania S.A. (the Bank), with registered office in 90-92 Emanoil Porumbaru street, District 1, Bucharest, Romania, identified by unique tax registration code RO 10556861, 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 290,413,212 |
| • Net profit for the financial year | RON 10,501,233 |

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 ("IFRSs") 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 (ISAs), Regulation (EU) No. 537/2014 of the European Parliament and the Council (forth named "the Regulation") and Law 162/2017 ("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 separate opinion on these matters.

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| *Impairment of loans and advances to customers* | |
|---|---|
| ***Nature of the area of focus*** | ***How our audit addressed the key audit matter*** |
| Refer to note 3 and accounting policies from the financial statements.<br><br>The Bank applied IFRS 9 - "Financial Instruments" which replaces "IAS 39 - Financial Instruments" starting with 1 January 2018. The key change arising from adoption of IFRS 9 is that the Bank's credit losses is now based on expected credit losses (ECL) rather than an incurred loss model.<br><br>As at 31 December 2018, the Bank has booked Impairment allowances of 53.5 mil RON for the Loans and advances to customers in gross amount of 874.1 mil RON.<br><br>The Bank exercises significant judgement using complex models, extensive data and subjective assumptions over both when and how much to record as loan impairment.<br><br>Key areas of judgment included:<br>• The interpretation of the requirements to determine impairment under application of IFRS 9, which is reflected in the expected credit loss model.<br>• 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.<br>• The identification of exposures with a significant deterioration in credit quality.<br><br>Because loans and advances to customers form a major portion of the Bank's assets, and due to the significance of the Management judgments applied in classifying loans and receivables into various stages stipulated in IFRS 9 and determining related impairment requirements, this audit area is considered a key audit matter. | Based on our risk assessment and industry knowledge, with the support of our Credit risk experts, we have examined the impairment charges for loans receivables and evaluated the methodology applied as well as the assumptions made according to the description of the key audit matter.<br><br>Our procedures included the following elements:<br><br>*Testing of internal controls*<br><br>We have challenged the appropriateness of key processes and related controls management has established to support their impairment calculations, including:<br>• controls for quality assurance of the source data used in developing professional judgements and ECL related models;<br>• controls related to timely identification of impairment triggers, including significant increase in credit risk;<br>• controls related to debtors financial performance assessment and estimation of future cash flow<br><br>For the controls identified to be relevant in addressing the risks, we have tested the design and operating effectiveness of these controls.<br><br>*Obtaining and analysing the evidence to support the assumptions used in:*<br>• 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;<br>• Development of the expected credit loss models<br>• Development of the stage allocation; and<br>• Development of models to reflect the potential impact of future economic conditions in the ECL computation.<br><br>*Test of the implementation of the new methodology into the ECL computation systems, including:*<br>• Test the general IT controls related to the data sources and computations of ECL;<br>• Assessment on a sample basis of the credit quality and stage allocation; and<br>• Test on a sample basis the ECL computations.<br><br>We have analysed the adequacy of significant ECL-related disclosures for compliance with the relevant IFRS requirements. |

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| Interest Income Recognition | |
|---|---|
| ***Nature of the area of focus*** | ***How our audit addressed the key audit matter*** |
| Refer to Note 5 from the financial statements<br><br>For the year ended 31 December 2018 the interest income represents RON 56.1 mil RON, the main source being loans to customers. These are the main contributors to the operating income of the Bank affecting the Bank's profitability.<br><br>Interest income is accrued over the expected life of the financial instrument using the effective interest rate. The recognition of fee income depends on the nature of the fees which are directly attributable to the financial instrument, which are part of the effective interest rate and accrued over the expected life of such an instrument and are presented as interest income.<br><br>Because of the significance of revenue recognition to the financial performance, a high volume of individually small transactions which depends on data quality of interest and fee inputs and on IT solutions for their recording, resulted in this matter being identified as a key audit matter. | We have tested the design and operating effectiveness of the key internal controls and focused on:<br>• Interest/fee inputs on customer loans and deposits;<br>• Recording/ changes of fees and interest rates;<br>• IT controls relating to access rights and change management of relevant automated controls with the assistance of our IT specialists.<br><br>We performed also the following procedures with regard to interest and fees revenue recognition:<br>• 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 standard (IFRS 9).<br>• We assessed the completeness and accuracy of data used for the calculation of interest income.<br>• We evaluated the mathematical formula used for accruing the relevant income over expected life of the loan.<br>• We have assessed the interest income by building our own expectation on the revenue and compared with the actual results of the Bank. |

**Other Information – Administrator's Report**

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

   Our opinion on the financial statements does not cover the other information and, unless otherwise explicitly mentioned in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements for the year ended December 31, 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.

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With respect to the Administrator's report, we read it and report if this has been prepared, in all material respects, in accordance with the provisions of the Order 27/2010, articles 11-13.

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 is 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 Order 27/2010, articles 11-13.

Moreover, based on our knowledge and understanding concerning the Bank and its environment gained during the audit on the financial statements prepared as at December 31, 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 IFRS and 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 ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the 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.

- 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.

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**Report on Other Legal and Regulatory Requirements**

15. We have been appointed by the Board of Administrators on October 24, 2018 to audit the financial statements of Marfin Bank S.A. for the financial year ended December 31, 2018. The uninterrupted total duration of our commitment is 3 years, covering the financial years ended December 31, 2016 until the December 31, 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.

- No non-audit services referred to in Article 5 (1) of EU Regulation No .537/2014 were provided.

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

Irina Dobre, Audit Director

***For signature, please refer to the original signed Romanian version.***

*Registered with the Authority for the Public Oversight of the Statutory Audit Activity under number 3344*
On behalf of:

**DELOITTE AUDIT S.R.L.**

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

Clădirea The Mark, Calea Griviței nr. 84-98 și 100-102,
etajul 8 și etajul 9, Sector 1
Bucharest, Romania
May 6, 2019

**MARFIN BANK ROMANIA SA**
**STATEMENT OF FINANCIAL POSITION**
**FOT THE YEAR ENDED DECEMBER 31, 2018**
**(all amounts are expressed in RON, unless otherwise stated)**

| | Note | December 31, 2018 | December 31, 2017 |
|---|---|---|---|
| Cash and balances with Central Banks | 10 | 235,209,032 | 511,127,495 |
| Placements with banks | 11 | 336,896,963 | 103,551,989 |
| Loans and advances to customers | 3 | 820,670,475 | 834,317,944 |
| Financial instruments at amortised cost | 12 | 307,186,317 | 252,253,855 |
| Current tax receivables | | 2,972,170 | 428,025 |
| Deferred tax | | 10,948,417 | 10,948,417 |
| Financial assets at fair value through other comprehensive income | 13 | 3,708,235 | 3,163,604 |
| Property and equipment | 14 | 2,376,937 | 1,416,088 |
| Intangible assets | 15 | 7,536,508 | 8,822,351 |
| Other financial assets | 16 | 1,659,794 | 1,627,311 |
| Other assets | 16 | 270,119,500 | 246,178,272 |
| **Total assets** | | **1,999,284,348** | **1,973,835,351** |
| Deposits from banks | 17 | 56,748,373 | 136,225,322 |
| Deposits from customers | 18 | 1,633,693,432 | 1,491,816,241 |
| Subordinated loans | 19 | - | 186,435,649 |
| Other financial liabilities | 20 | 3,586,089 | 14,143,102 |
| Other liabilities | 20 | 4,274,202 | 4,203,114 |
| Provisions for risks and charges | 21 | 569,040 | 337,656 |
| **Total liabilities** | | **1,708,871,136** | **1,833,161,084** |
| **Equity** | | | |
| Share capital | 22 | 457,314,748 | 317,499,748 |
| Reserves | 23 | 16,309,621 | 15,374,317 |
| Retained earnings | | (183,211,157) | (192,199,798) |
| **Total equity** | | **290,413,212** | **140,674,267** |
| **Total equity and liabilities** | | **1,999,284,348** | **1,973,835,351** |

The financial statements were approved in the General Meeting of Shareholders of May 6, 2019 and signed by:

**Theodor Cornel Stanescu**
**Deputy General Manager**

**Marilena Eparu**
**Financial Control Manager**

# MARFIN BANK ROMANIA SA
## STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME
## FOT THE YEAR ENDED DECEMBER 31, 2018
### (all amounts are expressed in RON, unless otherwise stated)

| | Note | Financial year ended December 31, 2018 | Financial year ended December 31, 2017 |
|---|---|---|---|
| Interest income | 5 | 56,143,446 | 50,325,637 |
| Interest expenses | 5 | -30,383,029 | -32,921,598 |
| **Net interest income** | | **25,760,417** | **17,404,039** |
| Net income/(expenses) with impairment of loans and advances granted to customers | | -757,062 | 27,729,117 |
| **Net interest income after impairment of loans and advances granted to customers** | | **25,003,355** | **45,133,156** |
| Fee and fee income | 6 | 3,549,257 | 3,630,980 |
| Fee and fee expenses | 6 | -814,125 | -1,014,281 |
| **Net fee and fee income** | | **2,735,132** | **2,616,699** |
| Net gains from foreign exchange differences | | 2,079,327 | 1,603,932 |
| Other operating income | 7 | 48,144,146 | 22,306,414 |
| Other operating expenses | 8 | -67,460,727 | -65,953,583 |
| **Profit before tax** | | **10,501,233** | **5,706,618** |
| (Expense)/Income from tax on profit | 9 | - | - |
| **Profit of the year** | | **10,501,233** | **5,706,618** |
| **Other comprehensive income** | | | |
| **Items that will not be reclassified to profit or loss** | | | |
| Differences from change in fair value of financial instruments at fair value through other comprehensive income, net of deferred tax | | 410,242 | 806,240 |
| **Comprehensive income for the closed financial year** | | **10,911,475** | **6,512,858** |

The financial statements were approved in the General Meeting of Shareholders of May 6, 2019 and signed by:

**Theodor Cornel Stanescu**
**Deputy General Manager**

**Marilena Eparu**
**Financial Control Manager**

## CASH FLOW STATEMENT
## FOT THE YEAR ENDED DECEMBER 31, 2018
**(all amounts are expressed in RON, unless otherwise stated)**

| | Note | Financial year ended December 31, 2018 | Financial year ended December 31, 2017 |
|---|---|---|---|
| **Profit before tax** | | **10,501,233** | **5,706,618** |
| ***Adjustments for non-monetary items:*** | | | |
| Income from impairment of assets | 7,3 | 6,447,821 | -31,350,836 |
| Depreciation charge | 8 | 3,495,412 | 4,270,973 |
| Net gains from treasury activities | 5 | -6,487,801 | -4,376,675 |
| Interest expenses | 5 | 30,383,029 | 32,921,598 |
| Interest income | 5 | -49,655,645 | -45,949,011 |
| Dividend income | 7 | -27,396 | -25,263 |
| Income from discounts obtained upon repayment of BoC loans/deposits | 7 | -32,295,879 | -11,554,012 |
| Sundry operating income | | -10,625,461 | |
| Expenses/(Income) from provisions for risks and charges | 8 | -78,744 | 326,279 |
| Expenses with reserve from revaluation of tangible assets | 23 | - | 90,873 |
| **Operating profit before changes in operating assets and liabilities** | | **-48,343,431** | **-49,939,406** |
| **(Increase) / Decrease in operating assets:** | | | |
| Decrease in loans and advances to customers | | 3,064,113 | 88,525,718 |
| Decrease / (Increases) in other assets | | -27,079,124 | 32,126,736 |
| **(Increase) / Decrease in operating liabilities:** | | | |
| Decrease in deposits and loans from banks and other financial institutions | | -69,476,950 | -63,237,861 |
| Increase / (decrease) in customer deposits | | 141,877,190 | -6,247,111 |
| Increase / (decrease) in other liabilities | | -5,110,340 | 18,657,436 |
| **Cash flow from operating activities before interest and tax** | | **5,152,140** | **19,885,512** |
| Interest earned from loans and advances to customers | 5 | 49,655,,645 | 45,949,011 |
| Interest paid on deposits | 5 | -26,142,990 | -27,227,438 |
| Income tax paid | 9 | 2,972,170 | - |
| **Cash flow from operating activities** | | **31,636,965** | **38,607,085** |
| Financing activities: | | | |
| Decrease / (increase) of investments held to maturity | | -55,228,055 | 48,443,838 |
| Interest received from investment activities | 5 | 6,487,801 | 4,376,625 |
| Dividends received | 7 | 27,396 | 25,263 |
| Payments / Collections from purchase/sale of tangible and intangible assets | 14,15 | -3,170,418 | -561,478 |
| **Cash flows used in investing activities** | | **-51,883,277** | **52,284,248** |

**(all amounts are expressed in RON, unless otherwise stated)**

| | Note | Financial year ended December 31, 2018 | Financial year ended December 31, 2017 |
|---|---|---|---|
| **Financing activities** | | | |
| Decrease of subordinated loans | | -154,139,770 | - |
| Cash collection from issuance of shares | | 139,815,000 | - |
| Effect of exchange rate fluctuations on subordinated loans | | -3,846,460 | 4,777,065 |
| Interest paid | 5 | -4,240,039 | -5,694,160 |
| **Cash flows used in financing activities** | | **-22,411,269** | **-917,095** |
| Increase in cash and cash equivalents | | -42,657,581 | 89,974,238 |
| Cash and cash equivalents at the beginning of the financial year | 24 | **614,679,484** | **524,705,246** |
| Impact of IFRS 9 as at January 1, 2018 | | -84,092 | - |
| Cash and cash equivalents at the end of the financial year | 24 | **572,105,995** | **614,679,484** |

**Cash flows from operating activities include:**

| | 2018 | 2017 |
|---|---|---|
| Interest received | 56,232,177 | 52,640,915 |
| Interest paid | -30,154,258 | -33,039,722 |

**Analysis of cash and cash equivalents**

**Cash and cash equivalents include:**

| | Note | 2018 | 2017 |
|---|---|---|---|
| Cash | 10 | 35,068,076 | 32,261,843 |
| Current accounts with other banks | 11 | 3,075,457 | 6,737,611 |
| Cash available with Central Bank | 10 | 200,140,956 | 478,865,652 |
| Deposits with banks | 11 | 333,821,506 | 96,814,377 |
| **TOTAL** | | **572,105,995** | **614,679,484** |

The financial statements were approved in the General Meeting of Shareholders of May 6, 2019 and signed by:

**Theodor Cornel Stanescu**
**Deputy General Manager**

**Mariana Eparu**
**Financial Control Manager**

**MARFIN BANK ROMANIA SA**
**STATEMENT OF CHANGES IN EQUITY**
**FOT THE YEAR ENDED DECEMBER 31, 2018**
**(all amounts are expressed in RON, unless otherwise stated)**

| | Share capital | Reserve | Retained earnings | Total |
|---|---|---|---|---|
| **Balance at January 1, 2017** | **317,499,748** | **14,191,873** | **-197,621,085** | **134,070,536** |
| **Profit for the year** | - | - | **5,706,618** | **5,706,618** |
| **Comprehensive income** | | | | |
| **Other comprehensive income** | | | | |
| Transfers to reserves | - | - | - | - |
| Differences from revaluation of non-current assets | - | 285,331 | -285,331 | - |
| Difference from change in fair value of available-for sale financial instruments, net of deferred tax | - | 90,873 | | 90,873 |
| | - | 806,240 | | 806,240 |
| **Total comprehensive income** | - | **1,182,444** | **5,421,287** | **6,603,731** |
| **Balance at December 31, 2017** | **317,499,748** | **15,374,317** | **-192,199,798** | **140,674,267** |
| Effect from changes of accounting policies – IFRS 9 | - | - | -987,530 | -987,530 |
| **Balance as at January 1, 2018** | **317,499,748** | **15,374,317** | **-193,187,328** | **140,674,267** |
| **Profit for the year** | - | - | **10,501,233** | **10,501,233** |
| **Comprehensive income** | | | | |
| **Other comprehensive income** | | | | |
| Transfers to reserves | - | 525,062 | 525,062 | - |
| Difference from change in fair value of financial instruments at fair value through other comprehensive income, net of deferred tax | - | 410,242 | - | 410,242 |
| **Total comprehensive income** | - | **935,304** | **-525,062** | **410,242** |
| Share capital increase | 139,815,000 | - | - | 139,815,000 |
| **Balance at December 31, 2018** | **457,314,748** | **16,309,621** | **-183,211,157** | **290,413,212** |

The financial statements were approved in the General Meeting of Shareholders of May 6, 2019 and signed by:

**Theodor Cornel Stanescu**
**Deputy General Manager**

**Marilena Eparu**
**Financial Control Manager**

The accompanying notes form an integral part of these financial statements.

## 1. THE BANK AND ITS OPERATIONS

Marfin Bank Romania SA ("Marfin Bank Romania" or "the Bank") was registered in Romania in 1998 as a public limited company and is authorized by the National Bank of Romania to conduct banking activities. The Bank is mainly conducting banking activities for natural or legal persons in Romania and had a number of 259 employees on December 31, 2018 (December 31, 2017: 253). The bank operates through its head office in Bucharest and through 30 branches and agencies (December 31, 2017: 32) in Romania.

Marfin Bank Romania SA is a Romanian bank, with its registered office in 90-92 Emanoil Porumbaru St, Bucharest, District 1, registered with O.R.C.T.B. (Trade Registry Office attached to the Bucharest Tribunal) with no. J40/4436/1998, having Sole Registration Number RO10556861, and bank account no. 371133700 RON opened with National Bank of Romania Central Office, fax 021.206.42.83. Marfin Bank Romania SA is also registered with the Bank Registry under no. RB-PJR-40-044/18.02.1999, and according to Law no. 677/2001 it is registered in the register of personal data operators with no. 632.

The Bank's **registered office** is:

**Marfin Bank Romania SA**
**90-92 Emanoil Porumbaru St**
**Bucharest, District 1**
**Romania**

On December 31, 2018 the **Board of Directors'** structure was as follows:

**Chairman:**

- Mr. Cleovoulos Alexandrou

**Members:**

- Mr. Antonios Mouzas
- Mr. Georgios Athanasopulos
- Mr. Theodor Cornel Stanescu

The majority shareholder of the Bank is Barnveld Enterprises Limited. The registered office address is 58 Arch. Makarios III, Iris Tower, etaj 8, 1075.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis for financial statements

The financial statements of the Bank have been prepared in accordance with National Bank of Romania Order no. 27/2010 for the approval of the Accounting Regulations compliant with the International Financial Reporting Standards, applicable to credit institutions with subsequent amendments and additions ("Order 27/2010") and with the International Financial Reporting Standards as they were adopted by the European Union ("IFRS") and the interpretations adopted by the International Accounting Standards Board ("IASB"). The main accounting policies applied in the preparation of these financial statements are presented below (Note 2 letters e) to g)) and have been consistently applied for all the periods disclosed.

The accounting records of the Bank are kept in Romanian lei (RON), in compliance with the accounting laws in Romania, as well as the banking regulations issued by the National Bank of Romania.

Preparation of the financial statements in compliance with IFRS requires the management make judgments, estimates and assumptions that affect the application of accounting policies, and the reported value of the assets, liabilities, income and expenses. The estimates and assumptions related to the same are based on historical data and other factors thought as indicative under the circumstances, and their result form the basis of judgments used for determining the book value of assets and liabilities for which there are no other available sources. The actual results may differ from the estimated values.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis for financial statements

Estimates and assumptions are periodically reviewed. Revisions to accounting estimates are recognized in the period in which the estimate is reviewed, if the revision affects only that period, or in the period the estimation is reviewed and future periods if the revision affects both the current period and future periods.

Information related to these estimates used in appliance of the accounting policies that carry a significant effect upon the financial statements, as well as the estimates implying a significant degree of uncertainty, are presented in Note 4.

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

**a) Going concern**

The financial statements of the Bank have been prepared in accordance with the activity continuity principle, which implies activity pursue on the part of the Bank in the foreseeable future.

***i)* Bank's position in Romania**

According to the Decree issued by the Central Bank of Cyprus, published in the Official Gazette of the Republic of Cyprus no. 4645 of March 29th, 2013, Laiki Bank transferred to the Bank of Cyprus the financing granted to the Bank. As a result, the Bank can no longer rely on financial support from the parent bank, hence, it is searching for a potential investor that would take over the majority shares.

In 2018, major changes occurred in the bank's shareholding, as the ownership of the former shareholder of the bank, i.e., Cyprus Popular Bank Public Co Ltd Cyprus (99.535052%) was taken over by Barnveld Enterprises Limited. Thus, by letter no. FG 235/12.03.2018, the National Bank of Romania informed Nestor Nestor Diculescu Kingston Petersen that it did not oppose the plans of Barniveld Enterprises Limited to hold a direct qualified ownership of 99.535052% of the subscribed and paid in share capital of Marfin Bank (România) SA, or the plans of Gem Force Investments Limited and Mr. Ioannis Vardinogiannis to hold indirect qualified ownership of 99.535052% of the subscribed and paid in share capital of the credit institution.

Also in 2018, the share capital was increased by EUR 30 million through the conversion of the subordinated loans in amount of EUR 30 million classified as Tier 2 equity, according to the Decision of the General Meeting of Shareholders of 28.08.2018. Barniveld Enterprises Limited took over from Bank of Cyprus the subordinated loans in amount of EUR 30 million (at nominal value) in the process of authorization of the new shareholder, and full payment was made from the personal funds of Barniveld Enterprises Limited on 30.08.2018.

On December 31, 2017, the balance of funding was EUR 69 million, of which EUR 40 million consisted of subordinated loans.

On December 31, 2018, all financings granted to the Bank by the Bank of Cyprus and Investment Bank of Greece were reimbursed.

Following these discount reimbursement transactions, the Bank recorded as income the value of the discount, having a significant positive impact over the Bank's results and over the prudential ratios.

In the present context, the Bank aimed to maintain adequate levels of liquidity and capital adequacy.

(all amounts are expressed in RON, unless otherwise stated)

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.1 Basis for financial statements (continued)

### a) Going concern (continued)

### *i) Bank's position in Romania (continued)*

The Bank's main ratios registered adequate levels as follows:

| Ratios/ Reporting data | Dec-18 RON | Dec-17 RON |
|---|---|---|
| **Own funds** | | |
| Own funds Tier 1 | 281,047,369 | 130,953,966 |
| Total own funds | 281,047,369 | 314,952,881 |
| **Capital adequacy ratios** | | |
| Capital adequacy ratio Tier 1 | 26.16% | 14.60% |
| Total capital adequacy ratio | 26.16% | 35.12% |
| **Debt-to-Equity ratio** | 13.72% | 6.60% |
| **Liquidity ratios** | | |
| Liquidity ratio | 3.40 | 3.75 |
| Quick ratio | 50.95% | 47.15% |
| Liquidity coverage ratio (LCR) | 417.63% | 201.91% |
| **Profitability ratios** | | |
| Return on Assets (ROA) | 0.53% | 0.29% |
| Return on Equity (ROE) | 3.62% | 4.06% |
| Total expenses to total revenues | 90.11% | 162.39% |
| **Ratios on the quality of the assets** | | |
| Non-performing loans ratio | 6.64% | 9.13% |
| Impaired receivables/Total credits | 11.83% | 14.30% |
| **Other ratios** | | |
| Granted loans/attracted deposits | 50.23% | 55.93% |
| Total debt/Total equity | 5.88 | 13.03 |

As of September 1, 2014, the Bank calculates its own funds according to Regulation 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 NBR Regulation no. 5/ 20.12.2013 on prudential requirements for credit institutions.

In terms of capital management, the Bank assesses capital adequacy for risks in accordance with the "Policy on the Internal Capital Adequacy Assessment", NBR regulations and CRD IV regulations package respectively.

The prudential filters for 2017 are taken into account as 20%, while for 2018, they are not taken into account.

The National Bank of Romania, as national regulatory and supervisory authority of the banking system, monitors the capital requirements of the Bank within the limits imposed by EU Regulation no. 575/2013 on prudential requirements for credit institutions and investment firms which provide:

- a basic capital adequacy ratio Tier 1 of 4.5%;
- a capital adequacy ratio Tier 1 of 6%;
- a total capital adequacy ratio of 8%.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.1 Basis for financial statements (continued)

### a) Going concern (continued)

#### *i) Bank's position in Romania (continued)*

By Order 22/20.04.2018, the National Bank of Romania imposed minimum capital adequacy ratios compared to the standard regulatory limits, as follows:

- a basic capital adequacy ratio Tier 1 of 8.69%;
- a capital adequacy ratio Tier 1 of 11.59%;
- a total capital adequacy ratio of 15.46%.

Moreover, as of January 1, 2016 the provisions of Order No. 12/2015 of the National Bank of Romania on the capital conservation buffer and the anti-cyclic capital buffer are applied so that credit institutions must meet the requirements of maintaining a capital buffer equal to a certain percentage of the total value of exposure to risk as follows: 0.625% applicable in 2016, 1.250% applicable in 2017 and 1.875% applicable in 2018.

In this context, as outlined at article 355 of the Guidelines on Common Procedures and Methodologies for the Supervisory Review and Evaluation Process (SREP) of Credit Institutions issued by the European Banking Authority, the Overall Capital Requirement (OCR) consists of the TSCR requirement, the buffer requirements set out in the Capital Requirements Directive and the additional own funds requirements to cover macro-prudential risks.

Also, according to the provisions of Order no. 4 / 09.05.2018 of the National Bank of Romania, starting 30 June 2018, credit institutions must meet the requirements for maintaining a systemic risk capital buffer in accordance with the methodology set out in the annex to the Order (2% in the case of Marfin Bank Romania SA).

Consequently, the overall capital requirement for Total Tier 1 equity (Tier 1 ORC) is composed of the TSCR requirement for the Tier 1 equity ratio and the capital buffer requirements (capital buffer applicable in 2018 at a rate of 1.875%, or capital buffer for 2% systemic risk at consolidated level as of 30.06.2018).

The Bank registered a profit of RON 10,501,233 for the financial year ended on December 31, 2018, reaching an accumulated loss of RON 183,211,157. The financial result of the year ended December 31, 2018 was positively influenced by the gain of RON 32,295,879 from the reimbursement of a subordinated loan in amount of EUR 10 million towards the Bank of Cyprus. This gain is not generated by the operating activity of the Bank. Under these circumstances, it is imposed that the Bank perform measures for the significant improvement of its operational performance.

On September 26, 2018 the new shareholder increased the share capital by EUR 30 million through the conversion of subordinated loans of the same value taken over from Bank of Cyprus.

Thus, according to Company Law no/ 31/1990, as republished, at December 31, 2018, the Bank's net assets, calculated as the difference between total assets and total liabilities of the Bank is more than half of the share capital.

In addition, the Bank's management believes that they shall be able to take appropriate measures to enable maintaining capital and liquidity at appropriate levels to continue its activity in the foreseeable future.

Therefore, based on the above, the Management believes that the use of the activity continuity principle in preparing the financial statements is appropriate.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.1 Basis for financial statements (continued)

### b) Basis for evaluation

The Bank's financial statements have been prepared on the historical cost basis convention, modified by the revaluation of investments at fair value through other comprehensive income, trading securities and derivatives transactions at fair value through profit or loss.

### c) Functional and presentation currency

The functional currency is the Romanian Leu ("RON"). The financial statements are prepared and presented in thousand Ron, unless otherwise stated.

### d) Standards and amendments effective in the current period

In 2018, the Bank applied all interpretations of the new standards revised or issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB, adopted by the EU, which are relevant to the work done by the Bank .

Starting January 1, 2018, the Bank applies the new IFRS9 Financial Financial Reporting Standard, which has an impact on the classification and measurement of financial instruments, as well as for determining credit risk adjustments by recognizing the expected losses, and also apply IFRS 15 "Revenue from contracts with customers" and amendments to IFRS 15 "IFRS 15 Effective Date" - adopted by the European Union on 22 September 2016 (applicable to annual periods beginning on or after 1 January 2018).

The differences in measuring and recording financial assets and liabilities arising from the application of IFRS 9 were recognized in the retained earnings of the Bank as at 1 January 2018. For details see note 2).

The Bank has decided not to adopt any of the Standards or Interpretations before their effective date, which were prepared for issue at the date of approval of these financial statements but which have not yet entered into force.

### e) Changes in accounting policies and revised / amended IFRSs

**IFRS 15: Revenue from contracts with clients**

This standard is valid for annual periods beginning on or after 1 January 2018. IFRS 15 establishes a five-step model that will apply to revenue from a customer contract (with limited exceptions), regardless of the type of revenue transaction or industry. The requirements of the Standard also apply to the recognition and measurement of gains and losses on the sale of non-financial assets that are not a production of the entity's ordinary activities (for example, sales of tangible assets or intangible assets). Wider disclosures, including disaggregation of total revenue, are required; performance performance information; changes in the assets and liabilities account balances between periods and key judgments and estimates.

**IAS 40: Transfers of Real Estate (Amendments)**

The amendments shall be effective for annual periods beginning on or after 1 January 2018 with an earlier permitted application. Changes clarify when an entity must transfer properties, including properties under construction or development, into or from real estate investments. Changes specify that a change in use occurs when the property enters or ceases to meet the definition of investment property and there is evidence of change in use. A simple change of management's intentions to use a property does not show any change in use.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.1 Basis for financial statements (continued)

### e) Changes in accounting policies and revised / amended IFRSs (continued)

**The IASB issued the Annual Improvements to IFRS 2014-2016**, which is a package of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2018 for IFRS 1 First-time Adoption of International Financial Reporting Standards and for IAS 28 Investments in Joint Ventures and Joint Ventures. Previous application is permitted for IAS 28 Investments in Associates and Joint Ventures

• **IFRS 1** First-time Adoption of International Financial Reporting Standards: This improvement removes short-term reliefs on the disclosure of financial instruments, employee benefits and investment entities applicable for the first time to adoptive users.

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

With the exception of IFRS 9 Financial Instruments, Recognition and Measurement, presented below, the Bank considers that the adoption of these standards, revisions and interpretations did not have a material impact on its annual financial statements.

**IFRS 9 Financial Instruments**

IFRS 9 "Financial Instruments" replaces IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 became effective as of 1 January 2018. It contains changes to the requirements relating to the recognition and measurement, impairment, derecognition and hedge accounting.

Classification and Measurement - IFRS 9 introduces new approach for the classification of financial assets, which is driven by cash flow characteristics and the business model in which an asset is held. This single, principle-based approach replaces existing rule-based requirements under IAS 39. The new model also results in a single impairment model being applied to all financial instruments.

Impairment - IFRS 9 has introduced a new, expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new standard requires entities to account for expected credit losses from when financial instruments are first recognized and to recognize full lifetime expected losses on a timelier basis, for clients with trigger events identified, mapped in stage 2.

Own credit - IFRS 9 removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities selected to be measured at fair value. This change in accounting means that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognized in profit or loss.

The objective of the impairment requirements is to recognize early credit losses throughout the cycle for all financial instruments for which significant increases in credit risk were registered since initial recognition, given all the reasonable and sustainable information.

IFRS 9 Financial Instruments is an accounting standard with a significant impact on risk management and the business model. IFRS 9 introduces a new approach for the classification of financial assets, which is driven by cash flow characteristics and the business model in which an asset is held.

IFRS 9 was implemented as of January 1, 2018. The implementation of IFRS 9 took place in 2017 and joined the classification and valuation, impairment and governance stages of IAS 39 Financial Instruments: Recognition and Measurement replacement project.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.1 Basis for financial statements (continued)

### e) Changes in accounting policies and revised / amended IFRSs (continued)

SPPI tests have been performed for both of the bank's business structures: retail and corporate and application of IFRS 9 models in credit risk management.

The Corporate Department is formed of two units:

- Customers Relations Unit – manages relations with corporate clients and assesses / approves the lending offers for clients
- Analysis Unit – in charge of verifying and analyzing the financial evolution of customers, identifying potential losses and proposing correction actions.

Corporate products:

- working capital facilities
- investment loans
- credit cards
- non-cash facilities: letters of guarantee and letters of credit

The Retail Department is formed of two units:

- Lending Unit (LU) - in charge of analyzing and approving the new lending facilities and/or changing existing loans, managing and solving customer complaints
- Product Development Unit (PDU) - in charge of developing new retail products (loans, saving products and cards) and revising/updating the existing portfolio.

Retail products

- Real estate investment loans
- Consumer loans
- Overdrafts
- Credit cards
- Other facilities: letters of guarantee

IFRS 9 requires the assessment of the business model as of the first-time adoption, i.e. January 1, 2018. After first-time adoption, the business models will be revised/validated if the circumstances indicate a change of business model.

The business model refers to the way in which the bank manages its financial assets in order to generate cash flows. Thus, the bank's business model relies on the fact that cash will flow to the bank due to the collection of contractual cash flows.

The business model and bank strategy for current products are to own and collect principal and interest.

**(all amounts are expressed in RON, unless otherwise stated)**

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.1 Basis for financial statements (continued)

### e) Standards and amendments to the standards issued by IASB and adopted by EU

The bank's business model and strategy for current products consist of holding and collecting the principal and the interest.

The summary of the financial impact of IFRS 9 adoption is presented below:

| Classification in accordance to IAS 39 | Classification in accordance to IAS 39 | Beginning balance in accordance to IAS 39 at 31 December 2017 | Adjustments for expected losses and other adjustments | Beginning balance in accordance to IAS 39 at 1 January 2018 |
|---|---|---|---|---|
| **Assets** | | RON | | RON |
| Cash in ATM | Cash in ATM | 32,261,843 | | 31,261,843 |
| Cash and balances with Central Bank | Cash and balances with Central Banks | 478,865,852 | -42,774 | 478,822,578 |
| Placements with banks | Placements with banks | 103,561,989 | -41,318 | 103,520,671 |
| Loans and advances to customers | Loans and advances to customers | 834,317,844 | -419,385 | 833,898,580 |
| Held-to-maturity financial instruments | Financial instruments at amortised cost | 252,257,865 | -295,593 | 251,962,262 |
| Current tax receivables | Current tax receivables | 428,025 | | 428,025 |
| Deferred tax receivables | Deferred tax | 10,548,417 | | 10,846,417 |
| Available-for-sale financial assets | Financial assets at fair value through other comprehensive income | 3,153,504 | | 3,153,804 |
| Intangible assets | Intangible assets | 1,416,058 | | 1,416,058 |
| Property and equipment | Property and equipment | 8,822,351 | | 8,822,351 |
| Other financial assets | Other financial assets | 1,827,311 | | 1,827,311 |
| Other assets | Other assets | 246,178,272 | | 246,178,272 |
| **Total assets** | **Total assets** | **1,973,836,351** | **-799,070** | **1,973,036,281** |
| **Liabilities** | | | | |
| Deposits from banks | Deposits from banks | 136,225,322 | | 136,225,322 |
| Deposits from customers | Deposits from customers | 1,431,898,241 | | 1,431,898,241 |
| Subordinated loans | Subordinated loans | 180,435,849 | | 180,435,849 |
| Other financial liabilities | Other financial liabilities | 14,143,332 | | 14,143,332 |
| Other liabilities | Other liabilities | 4,203,113 | | 4,203,113 |
| Provisions for litigations | Provisions for litigations | 200,305 | | 200,305 |
| Provisions for risks and charges | Provisions for risks and charges | 137,351 | 188,460 | 325,811 |
| **Total liabilities** | **Total liabilities** | **1,833,181,084** | **188,460** | **1,833,349,544** |
| | | | | |
| **Equity** | **Equity** | | | |
| Share capital | Share capital | 317,499,748 | | 317,499,748 |
| Reserves | Reserves | 15,374,317 | | 15,374,317 |
| Retained earnings | Retained earnings | -192,199,798 | -987,530 | -193,187,328 |
| **Total Equity** | **Total equity** | **140,674,267** | **-987,530** | **139,686,737** |
| | | | | |
| **Total equity and liabilities** | Total equity and liabilities | 1,973,835,351 | -799,070 | 1,973,036,281 |
| | | | | |

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.1 Basis for financial statements (continued)

#### f) Standards and interpretations issued by the IASB and adopted by the EU but not yet applicable

As at the date of approval of these financial statements, the following new standards issued by IASB and adopted by the EU are still effective.

• **IFRS 16 "Leases"** - adopted by the EU on 31 October 2017 (applicable to annual periods beginning on or after 1 January 2019). In accordance with IFRS 16, a lessee recognizes an asset of the right of use and a lease. Asset-backed assets are treated in the same way as other non-financial assets and are therefore amortized accordingly. The lease rate is initially measured at the present value of the lease payments payable over the lease term, updated at the default rate in the lease if it can be easily determined. If this rate can not be easily determined, the lessee will use their incremental loan rate. As in the case of the predecessor of IFRS 16, IAS 17, leasers classify leases as being operational or financial. A lease is classified as a finance lease if it substantially transfers all the risks and rewards incidental to the ownership of a underlying asset. Otherwise, a lease is classified as an operating lease. For financial leases, a lessor recognizes financial income over the lease term, based on a pattern that reflects a constant periodic rate of return on net investment. A locator recognizes operating lease payments as income on a linear basis or, if more representative of the pattern in which the profit from the use of the underlying asset is diminished, another systematic basis.

**IFRS 9**: Advances of Early Payments with Negative Compensation Issued by the IASB on 12 October 2017. The amendments modify the existing requirements in IFRS 9 on termination rights to allow an assessment of depreciated costs (or, depending on the business model, other comprehensive income ) even in the case of negative compensation payments. In accordance with the amendments, the sign of the prepayment is irrelevant, i.e. Depending on the interest prevailing at the time of termination, a payment may be made to the Contracting Party making the early repayment. The calculation of this compensation must be the same in the case of an early repayment penalty as well as in the case of early repayment.

• **Amendments to IFRS 3** Definition of an enterprise issued by the IASB on 22 October 2018. Changes have been introduced to improve the definition of a business. The modified definition emphasizes that the production of an enterprise is to provide goods and services to customers, while the previous definition has focused on returns in the form of dividends, reduced costs, or other economic benefits to investors and others. In addition to changing the text of the definition, the council has provided additional guidance.

With the exception of IFRS 16 - Lease Contracts, presented below, the Bank expects that the adoption of these standards, revisions and interpretations will not have a material impact on its financial statements during the initial period of application.

• **Amendments to** the different standards resulting from the IFRS 3 (IFRS 3, IFRS 11, IAS 12 and IAS 23) "Changes to Different Standards Due to Improvements to IFRSs (Cycle 2015-2017)", prepared by IASB December 12, 2017.) First of all, in order to eliminate the inconsistencies and clarify the forms. The amendments clarify that: An enterprise reassesses its previously held interest in a joint operation when it obtains control of the business (IFRS 3); a company does not reassess its previous interest in a joint venture when it acquires joint control of the enterprise (IFRS 11); a company accounts for all the income tax consequences of dividends in the same way (IAS 12); and a company treats any loan originally made to develop an asset when the asset is ready for intended use or sale (IAS 23) under the general loans.

With the exception of IFRS 16 – Lease Contracts presented below, the Bank expects that the adoption of these standards, revisions and interpretations will not have a material impact on its financial statements during the initial period of application

At the date of approval of these financial statements, the following new standards issued by the IASB and adopted by the EU are not yet in force:

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.1 Basis for financial statements (continued)

### f) Standards and interpretations issued by the IASB and adopted by the EU but not yet applicable (continued)

**IFRS 16 - Leases** - Impact of applying IFRS 16 Leasing

IFRS 16 provides a comprehensive model for identifying rental arrangements and accounting treatment in financial statements for both lessees and tenants.

IFRS 16 becomes effective as of 1 January 2019 and IAS 17 "Leases" and related interpretations: IFRIC 4, SIC 15 and SIC 27.

The purpose of the new standard is to facilitate the comparability of financial statements by presenting both financial and operating leases in the financial statements of the lessee and providing information to users of the financial statements about the risks associated with the agreements.

The date of initial application of IFRS 16 will be January 1, 2019. The Bank will not retrieve comparative figures.

**The impact of the new definition of a lease**

IFRS 16 provides a new definition of the lease. However, the Bank will use the practical benefits available to the transition to IFRS 16 in order not to re-evaluate whether a contract is or contains a lease. Consequently, the definition of a lease under IAS 17 and IFRIC 4 will continue to apply to those leases in force before 1 January 2019.

The essential element that differentiates the definition of a lease under IAS 17 and IFRS 16 is the concept of control. In accordance with IFRS 16, a contract is considered a lease if it transfers the rights to control the use of an asset identified for a given period in return for consideration. Control is deemed if the client has:

- the right to acquire substantially all of the economic benefits from the use of an identified asset; and
- the right to direct the use of such asset.

The new definition of the lease and the related guidelines set out in IFRS 16 will apply to all leases entered into or amended on or after 1 January 2019.

In preparation for the first-time adoption of IFRS 16, the Bank has completed an implementation project. The project has revealed that the new definition in IFRS 16 will not significantly change the scope of contracts that meet the definition of a lease.

**Impact on lessee accounting**

The new standard breaks the distinction between operating and finance leases in the lessee's records and requires recognition of the right to use as an asset and the related lease liability for all of the lessee's contracts, except for short-term lease contracts and low value contracts, which are subject to exemptions.

Upon initial application of IFRS 16, for leases previously classified as operating leases, the Bank will recognize the right-of-use asset and the lease liabilities as liability in the bank's financial position.

In addition, for each separate lease, the lease liability will initially be measured at the present value of the remaining lease payments, discounted using the incremental gearing ratio. In this respect, the Bank has decided to use discount rates on leases contracts with similar features, also taking into account the lease term set in the contract.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.1 Basis for financial statements (continued)

#### f) Standards and interpretations issued by the IASB and adopted by the EU but not yet applicable (continued)

**Impact on lessee accounting**

Upon initial application of IFRS 16, the right-of-use assets of all leases (except those that fall under the exception) will initially be valued at an amount equal to the lease liability adjusted for the amount of all lease payments paid in advance or related to such contract, recognized in the statement of financial position immediately prior to the date of initial application.

There are no cases of allowances for the right of use recognized as an asset at the date of initial application.

Costs related to VAT obligations will be excluded from the right of use.
Subsequent to initial application, the Bank will recognize the depreciation of right-of-use assets and interest on lease liabilities in the income statement.

Amounts paid will consist of principal (presented in the statement of cash flows as financing activities) and interest (presented in the statement of cash flows as operating activities).

No changes will be made to the accounting for operating leases which at 1 January 2019 will have a rental period of 12 months or less, and in the case of low-value leases.

**Estimates in the application of IFRS 16**

The implementation of IFRS 16 requires the use of judgment to make certain estimates and assumptions that measure the finance lease and available-for-use assets. These include, among others:

- determination of the remaining lease period for lease contracts concluded before 1 January 2019;
- determination of the incremental interest rates to be applied for the purpose of reducing future cash flows;
- determination of the period and the amortization rate for the right-of-use assets recognized at 1 January 2019.

**Financial impact of the adoption of IFRS 16**

The main aspects considered in the adoption of IFRS 16:

- prospective approach to be used as of January 1, 2019
- for contracts subject to VAT, the related VAT will be treated separately as cost when it will be eligible at the time of receipt of the invoice (e.g. Ploieşti, Moslior, Braila and Pipera, but less than 1 year)
- the cash guarantees concluded for some leases will not be included in RTU (e.g. Ploiesti, Sept 13, Baia Mare, HO & MB and AM, which is however less than 1 year)
- RTU will be calculated in local currency (RON), while LL in EUR, as stipulated in the leases (all except the one in RON - Ploiesti branch); this will generate an open EUR-EUR position of approximately EUR 6 million (depending on the ultimate level of the discount factor)
- the discount factor used for EUR-denominated contracts will be quoted in Romanian government bonds (RGB) published on January 3, 2018 or those issued whenever new contracts are concluded

**(all amounts are expressed in RON, unless otherwise stated)**

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.1 Basis for financial statements (continued)

### f) Standards and interpretations issued by the IASB and adopted by the EU but not yet applicable (continued)

**Financial impact of the adoption of IFRS 16 (continued)**

- the discount factor used for RON-denominated contracts will be quoted in Romanian government bonds (RGB) published on January 3, 2018 or those issued whenever new contracts are concluded
- RGB maturities will be matched on the maturity of the lease
- the exchange rate used to convert the Right-of-Use will be the RON / EUR exchange rate available on January 3, 2018 or the one issued whenever new contracts are concluded
- RTU depreciation will be on a straight-line basis
- for all lease contracts concluded at the date of adoption, IFRS 16 will apply, except for those with a term of 12 months or less (e.g. Mgm accommodation contracts).
- all rental contracts with less than one year term will be recorded separately directly as lease costs (e.g. Mgm, BCP, Pipera)
- focus on substance over form in the case of clauses on the term of the leases (the contractual cause - "unilateral termination by one of the parties, through a six-month prior notice")

Each contract has one article related to the termination of the lease, which stipulates as follows: the lease may be terminated in the following cases:

- expiry of the lease
- mutual agreement of the parties
- either party's default on the obligations assumed
- unilateral termination by any of the parties, subject to a prior notice of six months

Given the legal aspect, the six-month term stipulated in the contracts, although applicable as an exception to the standard (leases of 12 months or less), the economic aspect was deemed more relevant, given the date of the initial contract, and the fact that the lease of branches is reasonably certain for the going concern principle.

The summarised financial impact on the adoption of IFRS 16 is presented below:

| **Impact from adopting IFRS 16 ( RON)** | **Initial application 1.01.2019** |
|---|---|
| exchange rate RON/EUR | 4.6639 |
| **Righ of use, out of which** | **41,956,985** |
| branch offices and headquarters | 41,847,318 |
| ATM's | 109,667 |
| **Lease obligation, out of which** | **41,956,985** |
| EUR contracts | 41,623,526 |
| RON contracts | 333,459 |

As at December 31, 2018, the Bank has a number of 35 leases, of which: 30 are concluded to lease spaces needed for the activity of the bank's branches and head office, 2 for the accommodation of the bank's officers and 3 for the lease of ATMs.

Out of the 35 contracts, 4 are concluded for less than 12 months, thus they were excluded from the calculation of the right of use.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.1 Basis for financial statements (continued)

### f) Standards and interpretations issued by the IASB and adopted by the EU but not yet applicable (continued)

**Financial impact of the adoption of IFRS 16 (continued)**

Out of the 35 contracts taken into account, only one is concluded in RON, and the remaining are concluded in EUR, thus the lease liability will be registered in the contractual currency. This aspect will generate an exchange position in EUR in amount of EUR 8,924,612.

The estimated impact on the bank's financial position at the date of initial application is RON 41,956,985, at the exchange rate published by the NBR at the date of initial application (4.6639).

The estimated impact on profit or loss in 2019 is the decreased operating costs with leases and increase of expenses of depreciation and interest.

### g) Standards and interpretations issued by IASB, but not yet adopted by the EU

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the IASB except for the following new standards, amendments to the existing standards and interpretations, which were not endorsed for use in EU as at the authorization of these financial statements:

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard.
- **IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021),
- **Amendments to IFRS 3 "Business Combinations"** - Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period),
- **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 References to the Conceptual Framework in IFRS Standards** (effective for annual periods beginning on or after 1 January 2020).

The Bank does not expect these standards, revisions and interpretations to have a substantial effect on its annual financial statements when they apply for the first time.

### 2.2 Accounting for the effects of hyperinflation

Prior to January 1, 2004, the adjustments and reclassifications of the statutory accounting records for compliance with the International Financial Reporting Standards included restatement of balances and transactions in order to reflect the purchasing power of the national currency, in accordance with IAS 29 ("Financial Reporting Standards in Hyperinflationary Economies). IAS 29 require that financial statements prepared in the currency of a hyperinflationary economy be displayed in the currency rate at the balance sheet date. On January 1, 2004, the Bank did not apply the provisions of IAS 29, as in the Romanian economic environment the hyperinflation features disappeared. Accordingly, the amounts in the present currency, on December 31, 2003, were presented at carrying value in this financial statements. The retraction was based on the conversion factor: Consumer Price Index (CPI) in Romania published by the National Statistics Commission.

**(all amounts are expressed in RON, unless otherwise stated)**

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.3 Foreign currency

Transactions denominated in foreign currencies are translated into RON at the official rate of exchange of the transaction date. Monetary assets and liabilities in foreign currencies at the balance sheet date are denominated in the functional currency at the exchange rate of the day.

Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated using the exchange rate at the transaction date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are recorded in the functional currency at the exchange rate at the date the fair value was determined.

Revaluation differences are presented in the income statement, except for differences arising from the revaluation of available-for-sale equity investments, which are included in the reserve from the change in fair value of these financial instruments.

The exchange rates for the main foreign currencies were:

| **Currency** | **December 31, 2018** | **December 31, 2017** |
|---|---|---|
| Euro (EUR) | 1: RON 4.6639 | 1: RON 4.6597 |
| US Dollar (USD) | 1: RON 4.0736 | 1: RON 3.8915 |

### 2.4 Financial assets and liabilities

#### 2.4.1 Financial assets

#### a) Classification

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; financial instruments at amortised cost; and financial assets at fair value through other comprehensive income. The management determines the classification of its investments at initial recognition.

*Financial assets at fair value through profit or loss*

This category comprises two sub-groups: financial assets held for trading, and those designated at fair value through profit or loss at inception. Financial assets are classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. The Bank does not currently have financial assets at fair value through profit or loss. Derivatives are also categorized as held for trading unless they are designated as hedges.

*(i)* *Loans and receivables* are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those that the Bank intends to sell immediately or in the short term, which are classified as held for trading, and those designated by the Bank as financial assets at initial recognition at fair value through profit or loss; (b) those that the Bank designated on initial recognition as measured at fair value through other comprehensive income; (c) those about which the holder may not recover substantially the initial investment, other than because of the impairment losses.

*(ii)* *Financial instruments at amortised cost* are non-derivative financial assets that are quoted in an active market with fixed determinable payments and fixed maturities, which the Bank's management has the intent and ability to hold to maturity. In case the Bank decides to sell a significant portion of these securities during the current financial year or this took place during the two preceding financial years, the entire category would be reclassified to available-for-sale financial assets.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.4 Financial assets and liabilities (continued)

#### *2.4.1 Financial assets (continued)*

#### a) Classification (continued)

(iii) *Financial assets at fair value through other comprehensive income* are represented by investments the bank intends to keep for an indefinite period, and that can be sold as a result of the need for liquidity or changes in interest rates, exchange rates or stock prices.

Financial assets at fair value through other comprehensive income are measured at market value. Interest income related to available-for-sale financial assets is calculated using the effective interest method and recognized in profit or loss of the year.

Dividends on equity instruments at fair value through other comprehensive income are recognized in the income statement in the year when the Bank's right to collect them is established and it is probable that the dividends be collected. All other elements of changes in fair value are recognized in other comprehensive income until the investment is derecognized or impaired at which time the cumulative gain or loss is reclassified from total income in the profit or loss of the year.

*Agreements for sale and purchase of securities*. The sale and repurchase agreements of securities ("repo") that provide the lender a profit, are treated as secured financing transactions. Securities sold under these types of agreements of sale and repurchase are not derecognised. Securities are reclassified in the statement of financial position only if the transferee has the right by contract to sell or pledge the securities, in which case they are reclassified as repurchased receivables. The corresponding liability is presented in the category of deposits from banks or loans from banks and other financial institutions.

Securities purchased under a commitment to resell ("reverse repo") that provide a profit to the Bank, are recorded as loans and deposits at banks or loans and advances to customers, as appropriate. The difference between sale and repurchase price, adjusted with interest and the dividends income collected by other banks, is treated as interest income and estimated during reverse repo agreements by using the effective interest method.

#### b) Recognition

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

The Bank initially recognizes loans and advances and deposits assigned on the date they are initiated. All other financial assets (including those designated at fair value through profit or loss) are initially recognized on the settlement date. Derivatives are recognized when the parties become parties in the transaction.

#### c) Derecognition

The Bank derecognizes a financial asset when the contractual rights to receive cash flows from that financial asset expire, or when the Bank has transferred its rights to receive contractual cash flows attributable to that financial asset in a transaction in which it has transferred substantially all risks and benefits of ownership of the financial asset.

#### d) Reclassification

Upon transition to IFRS 9, the Bank took the irrevocable decision to classify financial assets at fair value through other comprehensive income.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.4 Financial assets and liabilities (continued)

#### *2.4.1 Financial assets (continued)*

**e) Offsets**

Assets and financial liabilities are offset, and the net result is presented in the statement of financial position only when there is a legal right of offset and there is the intention of their settlement on a net basis, or if it is intended to realize the asset and the extinction simultaneously.

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

#### 2.4.2. Financial liabilities

The Bank has financial liabilities at fair value through profit or loss (including financial liabilities held for trading and those designated at fair value through profit or loss) and financial liabilities at amortized cost. Financial liabilities are derecognised when they are extinguished – i.e. when the obligation is deleted, cancelled or when they expire.

**a) Financial liabilities at fair value through profit or loss**

This category comprises two sub-groups: financial liabilities held for trading and those designated at fair value through profit or loss. Financial liabilities are classified in this category if they are obtained primarily for the purpose of selling in the near future or if so designated by the management. Currently, the Bank does not have financial liabilities at fair value through profit or loss. Derivatives are also categorized as held for trading unless they are designated as hedging instruments.

**b) Other liabilities at amortized cost**

The financial liabilities not at fair value through profit or loss, or those that are not classified in this category are measured at amortized cost. Financial liabilities at amortized cost are deposits from other banks or from customers, debt securities in question for which the fair value and subordinated debt option is not applied.

### 2.5 Principles of assessment at fair value

The fair values of quoted investments in active markets are based on bid price in the case of bonds and on the average price in the case of derivatives. If the market of a financial asset is not active (unlisted securities and derivatives), the Bank establishes the fair value by using valuation techniques and models developed internally. These include the use of recent transactions with objective price and discounted cash flow analysis.

### 2.6 Derivatives

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted prices in active markets, including recent market transactions, as well as based on evaluation techniques including discounted cash flow models. All derivatives are recorded as assets when fair value is positive and as liabilities when fair value is negative.

### 2.7 Interest income and expense

Interest income and expenses are recorded in the profit or loss for all instruments measured at amortized cost using the effective interest method. Interest income includes coupons related fixed income investment securities, discounts and premiums earned from treasury certificates.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.7 Interest income and expense

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial obligation and allocation of income and 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, where appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. In calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, payment options beforehand) but there are not considered future credit losses. The calculation includes all fees and amounts paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and other premiums or discounts.

Once the value of an asset or group of financial assets has been decreased due to an impairment loss, interest income is recognized using the interest rate used to discount future cash flows to measure impairment loss.

### 2.8 Income from fees and commissions

Generally, fees and commissions are recognized on an accrual basis at the time of service. Loan origination fees with the possibility of withdrawal of amounts are recognized as accrued income as adjustments to the effective yield of the loan.

Fees and commissions comprise mainly the fees charged for the activity of amounts transfer to customers, trading securities and foreign exchange transactions, issuing letters of guarantee and letters of credit and fees on the current accounts.

Income from the Bank's fees and commissions also include fees from insurance companies for insurance brokerage operations. Revenues related to these services are recognized in the period in which services are provided and the income received.

### 2.9 Dividends

Dividends on ordinary shares are recognized in other comprehensive income in the period they are approved by the Annual General Shareholders Meeting.

### 2.10 Contracts of sale with repurchase clause

Securities sold under contracts of sale with repurchase clause ("repos") are classified in the financial statements as financial instruments at amortised cost and the counterparty obligation is included in amounts due to customers and banks.

The difference between the sale and repurchase price is considered as interest and recognized over the life of the contracts of sale with repurchase clause, using the effective yield method.

### 2.11 Impairment of financial assets

#### a) Assets measured at amortized cost

At each balance sheet date, the Bank assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are recorded if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably predicted.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.11 Impairment of financial assets (continued)

#### a) Assets measured at amortized cost (continued)

The criteria that the Bank uses to determine whether there is objective evidence of impairment loss include:

- breach of contractual obligations for related payment of credit or interest;
- cash flow difficulties experienced by the debtor;
- breach of loan agreements or conditions;
- initiation of bankruptcy, insolvency or enforcement proceedings;
- deterioration of the debtor's competitive position;
- deterioration of collateral value;
- impairment below the acceptable risk for investment;
- over 30 days past due; or
- restructuring activities exposure.

The Bank estimates the period between the time the loss occurs and when it is identified for each identified portfolio.

First, the Bank assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics, being collectively assessed for impairment identification. Assets individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been registered) discounted at the original effective interest rate financial asset.

The carrying amount of the asset is reduced through use of an impairment allowance account and the amount of loss is recorded in profit or loss. Where a loan or investment at amortised cost has a variable interest rate, the discount rate for evaluating the impairment loss is the current effective interest rate determined under the contract.

Calculating the present value of future cash flows for financial assets reflects the cash flows secured which could result in less costs for obtaining security adjudication and selling the collateral, whether enforcement proceedings is likely or not.

For the evaluation for impairment identification, financial assets are grouped on the basis of similar credit risk characteristics (i.e. based on the type of client, type of product depending on securities). These characteristics are relevant to the estimation of future cash flows related to groups of such assets, being indicative of the debtors' ability to pay all amounts due according to the contractual terms for the assets being evaluated.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.11 Impairment of financial assets (continued)

### a) Assets measured at amortized cost (continued)

The segmentation of the portfolio according to the codes existing in the Bank's software is the following:

**Portfolio category**

PF NON REVOLVING UNSECURED

PF NON REVOLVING SECURED

PF REVOLVING UNSECURED

PJ NON REVOLVING SECURED

PJ REVOLVING UNSECURED

PJ REVOLVING SECURED

Future cash flows related to a group of financial assets with a view to identifying impairment are estimated on the basis of the contractual cash flows related to the assets of the Bank and on historical loss experience for assets related to similar credit risk characteristics. Historical loss experience is adjusted on the basis of quantifiable information current to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period, these conditions no longer valid.

Estimates of changes in future cash flows for groups of assets should reflect and be consistent with quantifiable information changes from one period to another (for example, changes in unemployment rates, property prices, payment situation or other factors indicating changes in the probability of incurring losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce differences between loss estimates and actual loss experience.

If, during subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed to income by adjusting the allowance account in the income statement.

In accordance with IFRS 9, in some circumstances, an entity does not have reasonable and sustainable information that is available without undue cost or effort to measure estimated lifetime loss on an individual basis. In this case, the lifetime expected credit loss is recognized on a collective basis that considers comprehensive credit risk information. This comprehensive credit risk information should include not only past information, but also all relevant credit information, including future macroeconomic information (GDP evolution), to approximate the outcome of recognizing lifetime expected credit loss when there was a significant increase in credit risk from initial recognition at individual level.

***Restructured loans***

Restructured loans are considered impaired for at least 12 months of restructuring, if upon restructuring they were nonperforming.

***Write-off loans***

If there is objective evidence that an impairment loss on loans has occurred, the amount of loss is determined as the difference between the carrying value of loans and the present value of estimated future cash flows (excluding future credit losses that have not occurred) discounted at the original effective interest rate of the financial asset (i.e., the effective interest rate computed at initial recognition).

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.11 Impairment of financial assets (continued)

### a) Assets measured at amortized cost (continued)

***Write-off loans* (continued)**

The carrying amount of credits can be reduced either directly or by using an allowance account. The carrying value of impaired loans is reduced through an allowance account for loans that are not 100% provisioned.

For loans that are 100% provisioned, the Bank shall directly reduce their value, concurrently with the registration of such debts in off-balance sheet accounts. The subsequent recoveries from loans off-balance are recorded in the profit or loss account in "Net expense with the impairment of the loans and advances granted to customers".

### b) Assets classified measured at fair value through other comprehensive income

At each balance sheet date, the Bank assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. For equity investments classified as measured at fair value through other comprehensive income, is considered significant or prolonged decline in the fair value of the investment below its cost in determining whether they are impaired.

If any such evidence exists for financial assets at fair value through other comprehensive income, the accumulated loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss - is removed from other parts of the result global and recognized in profit or loss. If, in subsequent period, the fair value of a debt instrument classified as measured at fair value through other comprehensive income increases and the increase can be related objectively to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

### 2.12 Guarantees recovered

Guarantees recovered represent non-financial assets recovered by the Bank from customers for overdue account. Assets are initially recognized at fair value at the time of recognition in the balance sheet and are included in property and equipment, other financial assets or stocks in other non-financial assets, depending on their nature and the Bank's intention regarding the use of these assets. These assets are subsequently revalued and accounted for in accordance with the accounting policies for these categories of assets.

### 2.13 Intangible assets

Software licenses acquired are capitalized at acquisition costs and value of installing programs. These costs are amortized based on the estimated useful lives, which is normally three years.

Costs associated with developing or maintaining computer applications are recognized as an expense as incurred. Costs that are directly attributable to the production of identifiable and unique software applications under the control of the Bank, and which will probably generate economic benefits over costs of production for more than one year, are recognized as intangible assets. Direct costs include costs with personnel dealing with the development of computer applications and an appropriate share of relevant general costs.

Computer software development expenditure recognized as assets are amortized using the straight-line method over their useful life which is generally three years.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.14 Buildings and equipment

Tangible assets (buildings and land) are stated at revalued amount less accumulated depreciation and provision for impairment losses. Other items of property and equipment are stated at cost minus the accumulated depreciation and the provision for impairment losses. Tangible assets in progress are capitalized and amortized once the asset is into use.

Land and buildings are subject to sufficiently regularly revaluation to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end period. If there is no comparison fair market value, it will be estimated using discounted cash flow method. Increases in the carrying amount arising from revaluation are credited to other comprehensive income and increases the revaluation reserve in equity. Decreases canceling previous increases of the same asset are recognized in other comprehensive income and decrease the previously recognized revaluation reserve; all other decreases are recognized in the profit or loss of the year.

Repairs and maintenance expenses are recorded when incurred. The cost of replacing major parts or components of property and equipment is capitalized and the replaced part is scrapped.

Gains and losses on disposals determined by comparing proceeds to the carrying amount are recognized in profit or loss.

***Impairment***

Land is not impaired. Amortization of other buildings and equipment is calculated using the straight-line method to allocate the cost of their residual value over their estimated diverted period.

| | Useful life in years | |
|---|---|---|
| | **2018** | **2017** |
| Buildings | 50 | 50 |
| Furniture | 15 | 15 |
| Means of transport | 5 | 5 |
| Measuring and control devices | 4 | 4 |

The residual value of an asset is the estimated amount that the Bank will get at its disposal after priory deducting the estimated costs of disposal if that asset already had the necessary life and was already in the estimated useful life end. The residual value of an asset is nil if the Bank expects to use the asset until the end of its physical period.

Assets' residual values and useful lives are reviewed and adjusted, where appropriate, at each balance sheet date.

### 2.15 Impairment of non-financial assets

Assets that have an indefinite useful life are not amortized and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

The impairment loss is the difference between the carrying amount and the recoverable amount of the asset. Recoverable amount is the greater of the asset's fair value minus costs to sell and value in use. In calculating this impairment, assets are grouped at the lowest levels for which there are identifiable cash flows independent (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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.16 Liabilities from finance leases

Where the Bank is the lessee under a lease agreement in which the Bank assumes substantially all the risks and rewards of ownership, assets leased are capitalized in buildings and equipment at the initiation of the lease at the lower of the fair value of the leased property under 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 interest rate during repayment. Obligations related to rent, net of future finance charges, are included in borrowings.

Interest expenses are recorded in the profit and loss account during the contract using the effective interest method. Assets acquired under finance leases are depreciated over the useful life or the shorter contract period if the bank is not reasonably certain that it will obtain ownership of the asset until the end of the lease.

### 2.17 Operating leases

The total payments made under operating leases are recognized in profit or loss on a straight line basis over the lease period.

When an operating lease is terminated before the lease period has expired, any payment required to be made by the person who obtained the lease as a penalty is recognized as an expense in the period in which the conclusion of the contract occurs.

### 2.18 Cash and cash equivalents

For preparation of a cash flow statement using the indirect method, cash and cash equivalents include balances with a maturity of less than three months from the date of purchase i.e. cash; to unrestricted balances at central banks, including minimum reserve requirements; treasury and other eligible certificates; loans and advances to banks as well as short-term bonds.

### 2.19 Provisions

Provisions are recognized when the Bank has a legal or constructive obligation arising from past events, when the settlement of the obligation is required an outflow of resources embodying economic benefits and when a reliable estimate can be made regarding the value of bonds. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the whole category of obligations. Provisions are recognized even if the likelihood related to any item included in the same class of obligations may be small. Provisions are measured at the current 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.

### 2.20 Financial collateral contracts

Financial guarantee contracts are contracts that require the issuer to make specific payments to reimburse the beneficiary a loss suffered by it due to the fact that a particular borrower has not made payments on the due date in accordance with the terms of the debt instrument.

These financial guarantees are granted to banks, financial institutions and other bodies on behalf of customers to guarantee loans, overdrafts and other banking facilities.

Financial guarantees are initially recognized in the financial statements at fair value on the date granted. Subsequent to initial recognition, the Bank's obligations under such guarantees are measured at the higher of the initial measurement, less amortization calculated to recognize in the income statement 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 based on the history of losses, plus the management's judgment.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.21 Performance bonds

The performance bonds are contracts providing compensations if the other party does not fulfil its contractual obligations. These kind of contracts transfers the risks of non-financial performs with the credit risk. The performance bonds are initially recognised at the fair value, which is normally evidenced by the amount of the received commissions. This value is amortized using the linear method during the entire duration of the contract.

At the end of the reporting period, the performance bonds agreements are recognised at the highest value between: (i) unamortized balance corresponding to the initially recognised value and (ii) the best estimate of the necessary expanses in order to comply with the agreement liability at the end of each reporting period, updated at the market value. If the Bank has the contractual right to sue its customer for the recovery of the amounts paid for the settlement of the performance bonds contracts, these amounts shall be recognised as loans and bonds at the payment time towards the bonds' beneficiary.

### 2.22 Other loan commitments – off-balance sheet elements

The Bank, in the normal course of business, enters into other commitments including loan commitments and letters of credit. Adjustments are made for other credit commitments where the Bank has an obligation arising from past events, when the settlement of the obligation requires an outflow of resources embodying economic benefits and when a reliable estimate can be made regarding the amount of the obligation.

The Bank evaluates, at individual level the impairment of the balance sheets liabilities, depending on the financial performance, debt service, initiation of legal procedures and the coverage degree of the warranty exposure.

The impairment provisions are calculated based on the conversion factor in balance sheet exposure during the time when loss can be identified.

### 2.23 Pensions and other post-retirement benefits

The Bank, in the normal course of business, makes payments to the Romanian state pension funds for its employees in Romania, for pension, health and unemployment. All employees of the Bank are included in the state pension system.

The Bank does not operate any other pension scheme and, therefore, has no further obligations regarding pensions. The Bank has no other obligation to provide funds to current or former employees for their services.

### 2.24 Income tax

#### *a) Current income tax*

The Bank records its net income tax expense on financial statements in accordance with accounting regulations and tax legislation in Romania. Romanian tax legislation is based on a financial year ended December 31. For recording both current tax and deferred tax for the year ended, the Bank calculated the annual tax expense based on Romanian tax legislation in force at the balance sheet date.

#### *b) Deferred income tax*

Differences between financial reporting under International Financial Reporting Standards and the Romanian tax regulations lead to differences between the carrying amount of certain assets and liabilities and debt.

Deferred tax asset item is recognized to the extent that it is probable that future taxable profit will be available so that the temporary differences could be utilized.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.24 Income tax (continued)

Deferred tax is provided using the balance sheet liability method on temporary differences arising between the tax bases of assets and liabilities and calculating their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been implemented or substantially implemented at the balance sheet date and are expected to be applied when the deferred tax recovered is realized or the deferred tax obligation is settled.

### 2.25 Borrowings

Borrowings are recognized initially at net of transaction costs fair value. During subsequent periods, borrowings are stated at amortized cost, any difference between proceeds net of transaction costs and the redemption value is recognized in the income statement over the term of the loan based on the effective interest method.

### 2.26 Comparatives

Comparative annual financial statements have been amended, where appropriate, consistently with the current year presentation method.

## 3. FINANCIAL RISK MANAGEMENT

Financial risk management is intertwined with the activities of the Bank. Management, in order to maintain stability and business continuity, gives a high priority to the objective of implementation and continuous improvement of an effective risk management framework to minimize the possible negative impact on the financial results of the Bank.

The Board of Directors of the Bank is responsible for establishing and monitoring risk management framework. At the level of the Board of Directors of the Bank has been established a Risk Management Committee in order to coordinate and address all risks in advance; This Committee is responsible for implementing and monitoring policies and principles related to financial risk management. Risk Management Committee meets quarterly and reports its activities to the Board of Directors.

Both principles and existing risk management policies have been developed to identify early risk analysis undertaken by the Bank, setting limits and appropriate control systems as well as systematic risk monitoring and ensuring compliance with established limits.

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

The Risk Management Department of Marfin Bank Romania operates as an independent unit, assigned with executive responsibility for the planning and implementing risk management.

The Bank systematically monitors risks mentioned resulted from use of financial instruments: credit risk, market risk, liquidity risk, and operational risk.

## 3. FINANCIAL RISK MANAGEMENT (continued)

### 3.1 Credit risk

Banking and Bank profits are closely related to credit risk taken. Credit risk is the risk of a financial loss for the Bank that occurs when borrowers are unable to meet their contractual/ transactional obligations. Credit risk is considered the most important for the Bank, and its effective monitoring and management are top priorities for management. Bank's overall exposure to credit risk mainly results from the approved credit limits and corporate loans and retail financing, investment and trading activities of the Bank's trading activities in derivatives markets, and the settlement of financial instruments. The level of risk associated with any credit exposure depends on various factors, including the general and prevailing market conditions, the financial condition of borrowers, the amount, type and duration of exposure and the presence of any guarantees.

Implementing a credit policy which presents the principles of credit risk management, ensures an effective and uniform credit risk monitoring. The Bank applies a uniform policy and practice on credit assessment procedures, approval, renewal and monitoring. All credit limits are reviewed at least once a year and approval powers are based on class size and total exposure to credit risk assumed by the Bank for each debtor or group of debtors that are in contact (one primary debtor). The Board of Directors of the Bank has assigned executive responsibility for credit risk management to the Risk Management Committee. The objective of the Committee is to evaluate and approve credit limits for Bank customers and to monitoring the proper application and policy management functionality for credit risk.

### 3.1.1 Credit risk assessment

Reliable assessment of credit risk is a major priority of the management framework of the Bank's credit risk. The continuous development of infrastructure, systems and methodologies aimed at quantifying and assessing credit risk is essential in order to provide timely and effective support to management and business units in relation to decision-making, policy formulation and supervision requirements compliance.

***a) Loans and advances***

In measuring credit risk of loans and advances granted by the Bank to a counterparty: (i) the client's creditworthiness and the probability of default is systematically evaluated, (ii) the Bank's current exposure to credit risk resulting from impaired loans is monitored and ( iii) recoverability rate on defaulted obligations is estimated based on guarantees and securities. The three parameters for measuring credit risk are incorporated into the daily operations of the Bank.

Systematic evaluation of the creditworthiness of customers and the likelihood of default.

The bank evaluates the creditworthiness of its borrowers through the application of appropriate models for classification of loans through special features. These models have been developed internally and meet financial and statistical analysis specialist advice given by those responsible. Whenever possible, these models are tested through a comparative analysis based on external information available.

According to the Bank's policy, each borrower is evaluated when the credit limit is determined initially and thereafter, they are revaluated at least once a year. Assessments are also updated where updated information that can have a significant impact on the level of credit risk is available. The Bank regularly tests the predictive ability of creditworthiness evolution and valuation models used for both corporate and for retail loans, thus ensuring the potential to accurately describe any credit risk and enabling timely implementation of measures address the problems that arise.

## 3. FINANCIAL RISK MANAGEMENT (continued)

### 3.1 Credit risk (continued)

### 3.1.1 Credit risk assessment (continued)

#### a) *Loans and advances (continued)*

**Corporate loans**

Regarding corporate loans, the loan classification model applied depends on the financial standing of the Client, payment delays and existence of judicial proceedings. The system applied is a classification system developed internally.

The debtors of corporate clients are classified into 5 categories, which correspond to different levels of credit risk and are related to different classifications with regard to the probability of default, allowing the determination of expected loss.

**Retail loans (retail banking)**

Regarding loans to individuals (retail), the Bank focuses on the application of modern methods of assessing credit risk and fraud prevention, using also the scoring models customized for the retail loan portfolio profile of Marfin Bank Romania. Thus, the approval is only possible if the score calculated for the applicant exceeds a certain threshold, to ensure compliance of the retail loan portfolio with the risk strategy and the bank's profile. Specific score is calculated based on a set of features. The final classification into 5 categories is given by the financial standing of the Client, payment delays and existence of judicial proceedings.

#### (i) Monitoring Bank current exposure to credit risk

The Bank monitors credit risk exposure for its loans and advances to customers based on their notional amount.

#### (ii) Possible recovery based on existing collateral, securities and associated guarantees

During the establishment/revision of credit limits, the Bank takes into account the type of collateral for exposure.

The Bank assesses loss for the financial instrument at an amount equal to 12-month expected credit loss (Stage 1) if, as at the reporting date, the credit risk of a financial instrument has not increased significantly as of initial recognition.

If, on the reporting date, the credit risk of a financial instrument has increased significantly since initial recognition, then the Bank will assess the loss for such financial instrument at an equal value to TTC expected credit losses (stage 2).

For exposures to non-financial individual and legal entity clients, the Bank uses for classification in the following stages indicators that reveal a significant increase in credit risk:

Quantitative Indicators:

- Payment delays – more than 30 days overdue from reporting date;
- Risk class – downgrading by at least one risk class as at the reporting date compared to origination;

## 3. FINANCIAL RISK MANAGEMENT (continued)

### 3.1 Credit risk (continued)

### 3.1.1 Credit risk assessment (continued)

***a) Loans and advances (continued)***

**(ii) Possible recovery based on existing collateral, securities and associated guarantees**

Qualitative indicators:

- Restructured exposure during the trial period (forborne);

According to IFRS 9, exposures to banks and public administrations with a low default risk (investment grade) are ranked in Stage 1 and are attributed a 12-month probability of default for ECL computation. Bank and sovereign exposures that do not have a low default risk (non-investment grade) are ranked to Stage 2 and are attributed a TTC probability of default.

For classification in Stage 3, the following criteria - definition of default - are considered:

Regardless of the value of the exposure:

i. For corporate clients:

   a. Clients in various stages of insolvency;
   b. Clients with more than 90 days payment delays;
   c. Clients in forced execution;
   d. Clients that register at least one non-performing facility at the restructuring date, in the first restructuring year;
   e. Cases in which it is considered that, in the absence of an enforcement of the security, it is unlikely that the debtor will pay its entire credit debts, regardless of the any overdue amount or the number of days past due.

ii. For retail clients:

   a. Clients with more than 90 days payment delays;
   b. Clients in forced execution;
   c. Clients that register at least one non-performing facility at the restructuring date, in the first restructuring year;
   d. Cases in which it is considered that, in the absence of an enforcement of the security, it is unlikely that the debtor will pay its entire credit debts, regardless of the any overdue amount or the number of days past due;
   e. Clients who have sent applications for datio in solutum to the Bank.

ECLs are calculated using the EADs obtained based on the exposure schedule. Therefore, the highest available frequency must be applied in the computation, such as monthly PD. We assume that the default occurs at the beginning of the period: for each intra-year cash flows the formula considers the exposures at the beginning of the period and the EIR discount rate EIR must be used as of the second period.

The Bank has not identified any assets that could be classified as POCI.

## 3. FINANCIAL RISK MANAGEMENT (continued)

### 3.1 Credit risk (continued)

### 3.1.1 Credit risk assessment (continued)

***a) Loans and advances (continued)***

**(ii) Possible recovery based on existing collateral, securities and associated guarantees**

As regards the probability of default (PD), for exposures to banks and public administrations (sovereign), the Bank uses a simplified approach based on foreign credit ratings. For exposures to banks and public administrations, the Bank uses the fitted PD associated to the rating of the 10-year sovereign/corporate migration matrix. For exposures to banks and public administrations, the PD is calculated using an exponential function based on the rating awarded by the three agencies, separately for the sovereign PD and the corporate PD. Also, a maximum PD between sovereign and corporate is considered when determining the corporate PD. For exposures in RON towards the NBR a nil PD is considered. If there are more ECAI ratings available for the same counterparty, the lowest rating of the highest two ratings is used. If the issuer is not a rated entity, then the rating related to the country of incorporation (origin) is used. Also, no counterparty is assumed to have a higher rating than the rating of the country of incorporation (origin).

For non-financial clients, the Bank uses the conditional probability of default (CPD). The CPD is a measure for the probability that a default occurs throughout a certain period of time, provided it survives up to such date: 12 months from the following reporting date for Stage 1 exposures and throughout the cycle for Stage 2 exposures.

CPDs have been estimated based on portfolios aggregated on client types and on product types. The approach was to use the ratings migrations for the retail segment, as well as for corporate segment.

In order to obtain a stable migration matrix appropriate to the available data and the rating model used within the bank, the cohort approach was used.

The cohort approach for building a migration matrix estimates the transition probabilities through the historical transition frequencies. A cohort includes all borrowers who hold a given rating at the beginning of a given period. In the cohort approach, the transition matrix is completed with empirical transition frequencies. Typically, a transition matrix is estimated with data from multiple periods.

A common way to make an average of transition frequencies per period is the weighted average of borrowers, which uses the number of debtors in a cohort as weights.

One-year migration matrices based on a one-year window from a given snapshot were built.
Transition matrices were calculated annually from 2012 to 2016 for a 12-month period to capture 12-month default rates for each monthly snapshot for historical regression analysis to estimate the parameters for the matrix equation forecast in the next 3 years.
In order to estimate the probabilities for transitions after the forecast period, the last macro-adjusted transition matrix (3rd year) is converted to multi-period matrices. Transitions are supposed to be independent over the years.

Through this rule, matrices were generated over horizons longer than the forecast period.
The marginal PD (incremental) corresponds to the (unconditional) probability that a default occurs exactly in a given period (t).

## 3. FINANCIAL RISK MANAGEMENT (continued)

### 3.1 Credit risk (continued)

### 3.1.1 Credit risk assessment (continued)

#### *a) Loans and advances (continued)*

#### (ii) Possible recovery based on existing collateral, securities and associated guarantees

Using Cumulative PD and Marginal PD, conditional PD (CPD) corresponding to the non-ample probability in the period *t* was calculated, with no implicit value between *t_0* and the beginning of the period *t*.

In accordance with IFRS 9, in some circumstances, an entity does not have reasonable and sustainable information that is available without undue cost or effort to measure estimated lifetime loss on an individual basis. In this case, the expected loss on lifetime loans is recognized on a collective basis that considers comprehensive credit risk information. This comprehensive credit risk information should include not only past information but also all relevant credit information, including future macroeconomic information, to approximate the outcome of the recognition of expected lifetime Losses when a significant increase of credit risk from initial recognition at individual level.

In order to integrate future information into the probability of default, two sets of forecasts from the National Prognosis Center (CNP) and Eurostat are used - two scenarios with three-year forecasts.

Loss given default (LGD) is a factor that determines the gravity of a probability of default. Practically, LGD is the amount of the total exposure that the Bank expects not to recover in case of a loan impairment.

For banks and public administrations, the recovery rates are historical averages of security prices in case of default, as published by Moody's: 38% for high default risk exposures (non-investment grade) (below Baa3, BBB-, according to the hierarchy of rating agencies) and 44% for low default risk exposures (investment grade). Therefore, for non-investment grade exposures, a 62% LGD ratio is applied (100% - 38%), and for investment grade exposures, a 56% LGD ratio is applied (100% - 44%) except if other adjustments are individually required.

For non-financial clients, to calculate the LGD, the Bank uses the unsecured portion of the specific portfolio, based on the market value of the security, by using the proper adjustment ratios. The Bank decided to use the recovery rate from securities because the significant portion of default exposures was recovered by enforcing the securities (enforcement procedures and bankruptcy).

LGD is calculated separately for individuals and legal entities depending on the risk class and the type of facility (revolving/non-revolving) and securities (secured/non-secured).

#### *b) Securities*

For measuring and assessing the credit risk arising from debt securities and other certificates, external evaluations from rating agencies like Moody's, Standard & Poor's or other similar organizations are used. The value of the Bank's credit risk exposure caused by debt instruments and other certificates is assessed based on the market value of exposures and/or balance sheet or off-balance sheet positions.

## 3. FINANCIAL RISK MANAGEMENT (continued)

### 3.1 Credit risk (continued)

### 3.1.2. Management of credit limits and risk mitigation techniques

Marfin Bank Romania applies credit limits in order to manage and control its exposure to credit risk. Credit limits define the maximum acceptable risk for each counterparty, by product, by sector and by country. In addition, limits are set and applied to exposures regarding financial institutions. Total exposure of the Bank to credit risk of borrowers, including financial institutions, is controlled by applying sub-limits and off-balance sheet exposures, as well as daily positions of the portfolio of financial instruments such as foreign exchange forward contracts.

To determine client limits, the Bank considers any warranty that reduces risk. The Bank classifies credit risk based on the type of the associated collateral and the opportunity of their liquidation. Maximum credit limits which may be approved for each risk class are determined by the Bank.

Within the Bank, a loan is not approved by a single person, as the procedure generally requires the approval of at least three authorized persons, except for the consumer loans and credit cards. The authorities responsible for the approval of loans are assigned based on the level of risk exposure and their role in contributing to the quality of the Bank's total loan portfolio is particularly significant.

Credit limits are established with an effective duration of up to twelve months and are subject to annual or even frequent reviews. The responsible authorities may, under special conditions, set a period shorter than twelve months. Outstanding balances and their corresponding limits are monitored daily and any excess limit is reported in a timely manner and resolved accordingly.

The following paragraphs describes the techniques applied by the Bank to control and reduce credit risk.

***a) Guarantees***

The Bank obtains guarantees for loans to customers, thus minimizing the overall risk of credit and ensuring timely repayment of debts. To this end, the Bank has established categories of acceptable collaterals and incorporated them in its credit policy, the main types being:

- pledge on cash deposits;
- bank guarantee letters;
- pledge on financial instruments such as stocks or shares listed on the Stock Exchange;
- mortgages on real estate;
- pledge on real estate; or
- assignment of receivables resulting from promissory notes, checks and invoices.

Credit linked guarantees are initially measured during the credit approval process, based on their present value or fair value, and reassessed at regular intervals. Generally, a warranty for exposure to financial institutions is not required, except where it relates to sales contracts with repurchase clause ("repos") or similar activities. The Bank generally does not require collateral for investments in debt instruments.

***b) Derivatives***

The Bank systematically monitors and controls the exposure and duration of its net position opened in derivatives markets. Credit exposures from derivatives markets positions are part of the overall credit limits set for any counterparty and are taken into account during the approval process.

## 3. FINANCIAL RISK MANAGEMENT (continued)

### 3.1 Credit risk (continued)

### 3.1.2 Management of credit limits and risk mitigation techniques (continued)

#### *b) Derivatives (continued)*

Guarantees or other securities are not generally obtained for exposures to derivatives, unless the Bank requires the application of a safety margin from the counterparty.

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

#### *c) Loan commitments*

The primary purpose of these instruments is to ensure that funds are available to customers on request. Guarantees and standby letters of credit - which represent irrevocable commitments that the Bank will make payments if the customer cannot meet its obligations to third parties - carry the same credit risk as loans. Commercial and documentary letters of credit - which are written undertakings by the Bank on behalf of a customer authorizing a third party to collect rates by the Bank to an amount specified according to specific terms and conditions - are guaranteed by the shipped goods to which they relate and, therefore, present less risk than a direct loan.

Commitments related to credit extension represent unused credit limits parties under form of loans, guarantees or letters of credit. Concerning the credit risk of extended credit commitments, the Bank is exposed to a potential loss in an amount equal to the total amount of unused commitments.

### 3.1.3 The maximum exposure to credit risk before considering collateral or other credit increases

The Bank's maximum exposure to credit risk is reflected in the carrying amount of financial assets as reported in the statement of the financial position. In respect to letters of guarantee issued by the Bank and the credit commitments, the maximum exposure to credit risk is represented by the value of these commitments (Note 27). Credit risk is mitigated by existing guarantees.

The table below shows the maximum exposure to credit risk of the Bank as of December 31, 2018 and December 31, 2017, loans to customers, as reported in the statement of financial position.

(all amounts are expressed in RON, unless otherwise stated)

## 3. FINANCIAL RISK MANAGEMENT (continued)

### 3.1 Credit risk (continued)

#### 3.1.3 The maximum exposure to credit risk before considering collateral or other credit increases (continued)

The Bank also monitors credit risk by fields of activity. The analysis of concentration of credit risk by fields of activity at the reporting date is presented below (net amounts of allowances for impairment):

| | Gross exposure December 31, 2018 | Provision December 31, 2018 | Net exposure December 31, 2018 |
|---|---|---|---|
| **Total retail loans** | **340,224,060** | **-15,182,302** | **325,041,758** |
| Credit cards | 1,803,017 | -89,889 | 1,713,128 |
| Consumer loans / personal loans and overdrafts | 121,457,425 | -11,218,710 | 110,238,715 |
| Mortgage / Real estate loans | 216,963,618 | -3,873,703 | 213,089,915 |
| **Total corporate loans** | **533,921,445** | **-38,292,728** | **495,628,717** |
| **Total SMEs** | **446,313,756** | **-37,156,378** | **409,157,378** |
| Commerce | 140,766,866 | -6,448,799 | 134,318,067 |
| Industry | 67,065,164 | -7,653,271 | 59,411,893 |
| Construction and real estate | 143,861,123 | -14,328,903 | 129,532,220 |
| Agriculture | 6,629,771 | -23,964 | 6,605,807 |
| Lease | 21,881,025 | -353,051 | 21,527,974 |
| Others | 66,109,807 | -8,348,390 | 57,761,417 |
| **Total corporate** | **87,607,690** | **-1,136,350** | **86,471,339** |
| Commerce | 24,200,138 | -320,036 | 23,880,103 |
| Industry | 51,668,096 | -788,559 | 50,879,538 |
| Construction and real estate | - | - | - |
| Agriculture | - | - | - |
| Lease | 1,131,619 | -15,508 | 1,116,111 |
| Others | 10,607,836 | -12,247 | 10,595,588 |
| **Total loans and advances to customers** | **874,145,505** | **-53,475,030** | **820,670,475** |

As at December 31, 2018 the share of loans to customers in Bucharest in the total loan portfolio is 62.23%.

(all amounts are expressed in RON, unless otherwise stated)

## 3. FINANCIAL RISK MANAGEMENT (continued)

### 3.1 Credit risk (continued)

#### 3.1.3 The maximum exposure to credit risk before considering collateral or other credit increases (continued)

| | Gross exposure December 31, 2017 | Provision December 31, 2017 | Net exposure December 31, 2017 |
|---|---|---|---|
| **Total retail loans** | **337,311,291** | **13,027,976** | **324,283,315** |
| Credit cards | 1,860,011 | -105,230 | 1,754,781 |
| Consumer loans / personal loans and overdrafts | 143,066,174 | -10,220,840 | 132,845,334 |
| Mortgage / Real estate loans | 192,385,106 | -2,701,906 | 189,683,200 |
| **Total corporate loans** | **543,460,313** | **-33,425,684** | **510,034,629** |
| **Total SMEs** | **498,643,573** | **-32,755,686** | **465,887,887** |
| Commerce | 86,795,826 | -11,707,921 | 75,087,905 |
| Industry | 84,223,921 | -2,964,591 | 81,259,330 |
| Construction and real estate | 269,541,700 | -11,364,828 | 258,176,872 |
| Agriculture | 1,158,753 | -839 | 1,157,914 |
| Lease | 22,738,690 | -30,811 | 22,707,879 |
| Others | 34,184,683 | -6,686,696 | 27,497,987 |
| **Total corporate** | **44,816,740** | **-669,998** | **44,146,742** |
| Commerce | 1,787,815 | -1,191 | 1,786,625 |
| Industry | 32,031,562 | -647,547 | 31,384,015 |
| Construction and real estate | 10,827,262 | -6,752 | 10,820,510 |
| Agriculture | 170,100 | -14,508 | 155,592 |
| **Total loans and advances to customers** | **880,771,604** | **-46,453,660** | **834,317,944** |

As at December 31, 2017 the share of loans to customers in Bucharest in the total loan portfolio is 68.09%.

**(all amounts are expressed in RON, unless otherwise stated)**

## 3. FINANCIAL RISK MANAGEMENT (continued)

### 3.1 Credit risk (continued)

### 3.1.3 The maximum exposure to credit risk before considering collateral or other credit increases (continued)

**Information about guarantees as at December 31, 2018**

| | Secured loans and advances | Unsecured loans and advances | Total loans and advances |
|---|---|---|---|
| **Total retail loans** | **266,641,569** | **73,582,491** | **340,224,060** |
| Credit cards | 171,484 | 1,631,533 | 1,803,017 |
| Consumer loans / personal loans and overdrafts | 86,950,066 | 34,507,359 | 121,457,425 |
| Mortgage / Real estate loans | 179,520,019 | 37,443,599 | 216,963,618 |
| **Total corporate loans** | **328,673,972** | **205,247,473** | **533,921,445** |
| **Total SMEs** | **295,991,673** | **150,322,083** | **446,313,756** |
| Commerce | 103,658,722 | 37,108,144 | 140,766,866 |
| Industry | 42,602,499 | 24,462,665 | 67,065,164 |
| Construction and real estate | 104,702,500 | 39,158,623 | 143,861,123 |
| Agriculture | 5,814,202 | 815,569 | 6,629,771 |
| Leasing | 7,226,122 | 14,654,903 | 21,881,025 |
| Others | 31,987,628 | 34,122,179 | 66,109,807 |
| **Total corporate** | **32,682,299** | **54,925,390** | **87,607,689** |
| Commerce | 7,253,569 | 16,946,569 | 24,200,138 |
| Industry | 14,834,209 | 36,833,887 | 51,668,096 |
| Construction and real estate | - | - | - |
| Agriculture | - | - | - |
| Leasing | - | 1,131,619 | 1,131,619 |
| Others | 10,594,521 | 13,315 | 10,607,836 |
| **Total loans and advances to customers** | **595,315,541** | **278,829,964** | **874,145,505** |

The fair value of the security takes into account only real guarantees such as pledges over cash deposits, letters of bank guarantee, mortgages over real estates and pledge over movable assets. The above-mentioned information represent the minimum value between the net carrying amount of the loan balance and the value of the guarantee; the remaining uncovered part is presented in the column of unsecured loans and advances.

(all amounts are expressed in RON, unless otherwise stated)

## 3. FINANCIAL RISK MANAGEMENT (continued)

### 3.1 Credit risk (continued)

### 3.1.3 The maximum exposure to credit risk before considering collateral or other credit increases (continued)

**Information about guarantees as at December 31, 2017**

| | Secured loans and advances | Unsecured loans and advances | Total loans and advances |
|---|---|---|---|
| **Total retail loans** | **306,370,103** | **30,941,188** | **337,311,291** |
| Credit cards | 197,027 | 1,662,984 | 1,860,011 |
| Consumer loans / personal loans and overdrafts | 126,208,754 | 16,857,420 | 143,066,173 |
| Mortgage / Real estate loans | 179,964,322 | 12,420,784 | 192,385,106 |
| **Total corporate loans** | **507,704,857** | **35,755,456** | **543,460,313** |
| **Total SMEs** | **467,403,688** | **31,239,885** | **498,643,573** |
| Commerce | 78,791,141 | 8,004,685 | 86,795,826 |
| Industry | 78,270,179 | 5,953,742 | 84,223,921 |
| Construction and real estate | 261,414,469 | 8,127,230 | 269,541,700 |
| Agriculture | 1,141,601 | 17,152 | 1,158,753 |
| Leasing | 22,738,690 | - | 22,738,690 |
| Others | 25,047,607 | 9,137,077 | 34,184,684 |
| **Total corporate** | **40,301,169** | **4,515,570** | **44,816,740** |
| Commerce | 1,787,815 | - | 1,787,815 |
| Industry | 27,515,992 | 4,515,570 | 32,031,562 |
| Construction and real estate | 10,827,262 | - | 10,827,262 |
| Agriculture | 170,100 | - | 170,100 |
| **Total loans and advances to customers** | **814,074,960** | **66,696,644** | **880,771,604** |

*Figures contain the IRC correction on the gross exposure that currently was transferred to the expected losses.

**Presentation of loans and advances to customers by class and category:**

*Loans and advances to customers neither past due nor impaired* are loans and advances to customers classified to Stages 1 and 2, which have no days past due and are not impaired.

*Loans and advances to customers past due but not impaired* are loans and advances to customers classified to Stages 1 and 2, which have days past due and are not impaired.

Impaired loans and advances to customers are loans and advances to customers classified to Stage 3, which have indicators of impairment.

The employment of claims (principal, attached receivables and amounts amortized) on each position is performed at the level of credit facility for exposures classified to Stages 1 and 2 and in terms of total exposure per customer for customers classified to Stage 3, both for borrowers individuals and legal entities.

(all amounts are expressed in RON, unless otherwise stated)

## 3. FINANCIAL RISK MANAGEMENT (continued)

### 3.1 Credit risk (continued)

#### 3.1.3 The maximum exposure to credit risk before considering collateral or other credit increases (continued)

**As at December 31, 2018:**

| | Loans and advances neither past due nor impaired | | Loans and advances past due, but not impaired | | Loans and advances impaired | Total |
|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 1 | Stage 2 | Stage 3 | |
| **Total retail loans** | **263,254,343** | **6,396,031** | **14,966,633** | **30,011,756** | **25,595,297** | **340,224,060** |
| Credit cards | 1,459,119 | 22,091 | 210,507 | 43,038 | 68,262 | 1,803,017 |
| Consumer loans / personal loans and overdrafts | 72,967,731 | 3,122,440 | 5,282,793 | 19,403,467 | 20,680,994 | 121,457,425 |
| Mortgage / Real estate loans | 188,827,493 | 3,251,500 | 9,473,333 | 10,565,251 | 4,846,041 | 216,963,618 |

(all amounts are expressed in RON, unless otherwise stated)

## 3. FINANCIAL RISK MANAGEMENT (continued)

### 3.1 Credit risk (continued)

#### 3.1.3 The maximum exposure to credit risk before considering collateral or other credit increases (continued)

| | Loans and advances neither past due nor impaired | | Loans and advances past due, but not impaired | | Loans and advances impaired | Total |
|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 1 | Stage 2 | Stage 3 | |
| **Total corporate loans** | **334,544,111** | **49,424,032** | **37,712,047** | **35,529,212** | **76,712,043** | **533,921,445** |
| **SMEs** | **249,591,532** | **49,424,032** | **37,083,668** | **35,529,212** | **74,685,312** | **446,313,756** |
| Commerce | 103,501,713 | 6,159,253 | 9,261,912 | 5,822,994 | 16,020,994 | 140,766,866 |
| Industry | 35,401,771 | 579,238 | 7,511,369 | 258,079 | 23,314,707 | 67,065,164 |
| Construction and real estate | 50,877,834 | 32,828,989 | 12,256,362 | 25,936,238 | 21,959,700 | 143,861,123 |
| Agriculture | 5,140,534 | 210,099 | 1,279,138 | - | - | 6,629,771 |
| Leasing | 21,881,025 | - | - | - | - | 21,881,025 |
| Others | 32,798,655 | 9,646,453 | 6,774,887 | 3,509,901 | 13,389,911 | 66,109,807 |
| **Corporate** | **84,952,579** | - | **628,379** | - | **2,026,731** | **87,607,689** |
| Commerce | 22,173,407 | - | - | - | 2,026,731 | 24,200,138 |
| Industry | 51,039,717 | - | 628,379 | - | - | 51,668,096 |
| Leasing | 1,131,619 | - | - | - | - | 1,131,619 |
| Others | 10,607,836 | - | - | - | - | 10,607,836 |
| **Total loans and advances to customers** | **597,798,454** | **55,820,063** | **52,678,680** | **65,540,968** | **102,307,340** | **874,145,505** |
| Expected loss | -3,049,811 | -1,515,777 | -210,148 | -3,897,205 | -44,802,089 | -53,475,030 |
| **Total loans and advances to customers** | **594,748,643** | **54,304,286** | **52,468,532** | **61,643,763** | **57,505,251** | **820,670,475** |

(all amounts are expressed in RON, unless otherwise stated)

## 3. FINANCIAL RISK MANAGEMENT (continued)

### 3.1 Credit risk (continued)

#### 3.1.3 The maximum exposure to credit risk before considering collateral or other credit increases (continued)

**Presentation of loans and advances to customers by class and category as at December 31, 2017:**

| | Loans and advances neither past due nor impaired | Loans and advances past due, but not impaired | Loans and advances impaired | Total |
|---|---|---|---|---|
| **Total retail loans** | **254,872,965** | **57,963,248** | **24,475,078** | **337,311,291** |
| Credit cards | 1,566,159 | 253,315 | 40,537 | 1,860,011 |
| Consumer loans / personal loans and overdrafts | 88,633,355 | 36,268,246 | 18,164,573 | 143,066,174 |
| Mortgage / Real estate loans | 164,673,451 | 21,441,687 | 6,269,968 | 192,385,106 |
| **Total gross corporate loans** | **186,216,166** | **284,309,200** | **92,934,947** | **543,460,313** |
| **Total SMEs** | **142,553,468** | **272,857,887** | **83,232,218** | **498,643,573** |
| Commerce | 53,638,190 | 5,394,382 | 7,763,254 | 66,795,826 |
| Industry | 23,490,168 | 49,831,298 | 10,902,455 | 84,223,921 |
| Construction and real estate | 28,710,864 | 209,294,910 | 31,535,926 | 269,541,700 |
| Agriculture | 1,158,753 | - | - | 1,158,753 |
| Leasing | 22,738,690 | - | - | 22,738,690 |
| Others | 12,816,803 | 8,337,297 | 13,030,583 | 34,184,683 |
| **Total corporate** | **23,662,698** | **11,451,313** | **9,702,729** | **44,816,740** |
| Commerce | - | 1,787,816 | - | 1,787,816 |
| Industry | 12,835,436 | 9,663,497 | 9,532,629 | 32,031,562 |
| Construction and real estate | 10,827,262 | - | - | 10,827,262 |
| Agriculture | - | - | 170,100 | 170,100 |
| **Total gross loans and advances to customers** | **421,089,131** | **342,272,448** | **117,410,025** | **880,771,604** |
| **Impairment provision** | **-642,440** | **-2,777,423** | **-43,033,797** | **-46,453,660** |
| **Total loans and advances to customers** | **420,446,691** | **339,495,025** | **74,376,228** | **834,317,944** |

(all amounts are expressed in RON, unless otherwise stated)

## 3. FINANCIAL RISK MANAGEMENT (continued)

### 3.1 Credit risk (continued)

### 3.1.4 Loans and advances

**a) Neither past nor due impaired loans and advances:**

The loans and advances to customers are presented below in relation to the quality of the credit risk.

**December 31, 2018**

| | Retail loans | | | Corporate loans | | |
|---|---|---|---|---|---|---|
| | Credit cards | Consumer/ Personal loans | Mortgage/ Real estate loans | Small/ medium-sized entities | Large corporate entities | Total loans/ advances to customers |
| Low risk | 1,390,377 | 71,934,833 | 178,291,940 | 126,549,151 | 35,052,531 | 413,218,832 |
| Medium risk | 68,742 | 1,032,898 | 10,535,553 | 123,042,381 | 49,900,048 | 184,579,622 |
| High risk | - | - | - | - | - | - |
| **Total Stage 1** | **1,459,119** | **72,967,731** | **188,827,493** | **249,591,532** | **84,952,579** | **597,798,454** |
| Expected loss Stage 1 | -5,864 | -94,586 | -220,156 | -1,639,229 | -1,089,976 | -3,049,811 |
| **Total net Stage 1** | **1,453,255** | **72,873,145** | **188,607,337** | **247,952,303** | **83,862,603** | **594,748,643** |
| **Stage 2** | | | | | | |
| Low risk | - | 2,144,049 | 943,060 | - | - | 3,087,109 |
| Medium risk | 22,091 | 957,617 | 2,308,440 | 48,961,628 | - | 52,249,776 |
| High risk | - | 20,774 | - | 462,404 | - | 483,178 |
| **Total Stage 2** | **22,091** | **3,122,440** | **3,251,500** | **49,424,032** | **-** | **55,820,063** |
| Expected loss Stage 2 | -1,281 | -92,199 | -125,492 | -1,296,805 | - | -1,515,777 |
| **Total net Stage 2** | **20,810** | **3,030,241** | **3,126,008** | **48,127,227** | **-** | **54,304,286** |
| **Total gross** | **1,481,210** | **76,090,171** | **192,078,993** | **299,015,564** | **84,952,579** | **653,618,517** |
| Total expected loss | -7,145 | -186,785 | -345,648 | -2,936,034 | -1,089,976 | -4,565,588 |
| **Total net** | **1,474,065** | **75,903,386** | **191,733,345** | **296,079,530** | **83,862,603** | **649,052,929** |

(all amounts are expressed in RON, unless otherwise stated)

## 3. FINANCIAL RISK MANAGEMENT (continued)

### 3.1 Credit risk (continued)

#### 3.1.4 Loans and advances (continued)

**a) Neither past nor due impaired loans and advances (continued)**

**December 31, 2017**

| | Retail loans | | | Corporate loans | | |
|---|---|---|---|---|---|---|
| | Credit cards | Consumer/ Personal loans | Mortgage/ Real estate loans | Small/ medium-sized entities | Large corporate entities | Total loans/ advances to customers |
| Low risk | 1,470,412 | 84,524,935 | 155,197,189 | 47,660,183 | - | 288,852,719 |
| Medium risk | 95,747 | 4,087,729 | 9,476,262 | 70,192,492 | 23,662,698 | 107,514,928 |
| High risk | - | 20,691 | - | 24,700,793 | - | 24,771,484 |
| **Total gross exposure** | **1,566,159** | **88,633,355** | **164,673,451** | **142,553,468** | **23,662,698** | **421,089,131** |
| Provision for loan impairment losses (collective assessment) | (55,883) | (134,022) | (113,931) | (282,206) | (56,398) | (642,440) |
| **Net exposure** | **1,510,276** | **88,499,333** | **164,559,520** | **142,271,262** | **23,606,300** | **420,446,691** |

The criteria used for the above grades are the following:

| | |
|---|---|
| Low risk | Current loans classified as "Standard" |
| Medium risk | Current loans classified as "Under observation" and "Substandard" |
| High risk | Current loans classified as "Doubtful" and "Loss" |

(all amounts are expressed in RON, unless otherwise stated)

**3. FINANCIAL RISK MANAGEMENT (continued)**

**3.1 Credit risk (continued)**

**3.1.4 Loans and advances (continued)**

**b) Past due but not impaired loans and advances**

**December 31, 2018**

| Portfolio | Stage 1 | | | Stage 2 | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Outstanding up to 30 days | Total Stage 1 | Expected loss Stage 1 | Outstanding up to 30 days | Outstanding between 31-60 days | Outstanding between 61-90 days | Total Stage 2 | Expected loss Stage 2 | Total | Expected loss | Fair value of guarantee |
| **Total retail loans** | **14,966,633** | **14,966,633** | **-37,913** | **6,996,921** | **16,201,380** | **6,813,455** | **30,011,756** | **-3,353,408** | **44,978,389** | **-3,391,321** | **34,629,592** |
| Credit cards | | | | | | | | | | | |
| Consumer loans / personal loans and overdrafts | 210,507 | 210,507 | -929 | 3,632 | 33,440 | 5,966 | 43,038 | -13,553 | 253,545 | -14,462 | 50,184 |
| Mortgage / Real Estate loans | 5,262,793 | 5,262,793 | -17,072 | 3,902,882 | 9,742,621 | 5,757,964 | 19,403,467 | -2,111,146 | 24,686,260 | -2,128,218 | 18,536,347 |
| | 9,473,333 | 9,473,333 | -19,912 | 3,090,407 | 4,425,319 | 3,049,525 | 10,565,251 | -1,228,709 | 20,038,584 | -1,248,621 | 16,043,061 |
| **Expected credit loss retail** | **-37,913** | **-37,913** | **-** | **-344,797** | **-1,538,222** | **-1,470,389** | **-3,353,408** | **-** | **-3,391,321** | **-** | **-** |
| **Total retail loans, net** | **14,928,720** | **14,928,720** | **-** | **6,652,124** | **12,663,158** | **7,343,066** | **26,658,348** | **-** | **41,587,068** | **-** | **-** |

(all amounts are expressed in RON, unless otherwise stated)

## 3. FINANCIAL RISK MANAGEMENT (continued)

### 3.1 Credit risk (continued)

#### 3.1.4 Loans and advances (continued)

b) Past due but not impaired loans and advances (continued)

| Portfolio | Stage 1 | | | Stage 2 | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Outstanding up to 30 days | Total Stage 1 | Expected loss Stage 1 | Outstanding up to 30 days | Outstanding between 31-60 days | Outstanding between 61-90 days | Total Stage 2 | Expected loss Stage 2 | Total | Expected loss | Fair value of guarantee |
| **Total corporate loans** | **37,712,047** | **37,712,047** | **-172,235** | **23,082,306** | **5,383,322** | **7,063,584** | **35,529,212** | **-543,797** | **73,241,259** | **-716,032** | **53,051,191** |
| **SMEs** | **37,083,668** | **37,083,668** | **-166,396** | **23,082,306** | **5,383,322** | **7,063,584** | **35,529,212** | **-543,797** | **72,612,880** | **-710,193** | **52,422,812** |
| Commerce | 9,261,912 | 9,261,912 | -33,180 | 1,625,073 | 4,030,275 | 167,646 | 5,822,994 | -142,432 | 15,084,906 | -175,612 | 10,998,319 |
| Industry | 7,511,369 | 7,511,369 | -34,389 | - | - | 258,079 | 258,079 | -70,789 | 7,769,448 | -105,178 | 7,391,675 |
| Construction and real estate | 12,256,362 | 12,256,362 | -61,288 | 19,300,379 | - | 6,637,859 | 25,938,238 | -268,374 | 38,194,600 | -329,662 | 25,550,684 |
| Agriculture | 1,279,138 | 1,279,138 | -2,930 | - | - | - | - | - | 1,279,138 | -2,930 | 960,808 |
| Others | 6,774,887 | 6,774,887 | -34,609 | 2,156,854 | 1,353,047 | - | 3,509,901 | -62,202 | 10,284,788 | -96,811 | 7,521,326 |
| **Corporate** | **628,379** | **628,379** | **-5,839** | - | - | - | - | - | **628,379** | **-5,839** | **628,379** |
| Industry | 628,379 | 628,379 | -5,839 | - | - | - | - | - | 628,379 | -5,839 | 628,379 |

(all amounts are expressed in RON, unless otherwise stated)

## 3. FINANCIAL RISK MANAGEMENT (continued)

### 3.1 Credit risk (continued)

#### 3.1.4 Loans and advances (continued)

**b) Past due but not impaired loans and advances (continued)**

| Portfolio | Stage 1 | | | Stage 2 | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Outstanding up to 30 days | Total Stage 1 | Expected loss Stage 1 | Outstanding up to 30 days | Outstanding between 31-60 days | Outstanding between 61-90 days | Total Stage 2 | Expected loss Stage 2 | Total | Expected loss | Fair value of guarantee |
| Expected loss on corporate loans | -172,235 | -172,235 | - | -188,974 | -147,924 | -206,899 | -543,797 | - | -716,032 | - | - |
| **Total net corporate loans** | **37,539,812** | **37,539,812** | - | **22,893,332** | **5,235,398** | **6,856,685** | **34,985,415** | | **72,525,227** | - | - |
| **Total loans and advances to customers** | **52,678,680** | **52,678,680** | **-210,148** | **30,079,227** | **19,584,702** | **15,877,039** | **65,540,968** | **3,897,205** | **118,219,648** | **4,107,353** | **87,680,783** |
| Expected loss for loans and advances to customers | -210,148 | -210,148 | - | -533,771 | -1,686,146 | -1,677,288 | -3,897,205 | - | -4,107,353 | - | - |
| **Total net loans and advances to customers** | **52,468,532** | **52,468,532** | - | **29,545,456** | **17,898,556** | **14,199,751** | **61,643,763** | - | **114,112,295** | - | - |

(all amounts are expressed in RON, unless otherwise stated)

## 3. FINANCIAL RISK MANAGEMENT (continued)

### 3.1 Credit risk (continued)

#### 3.1.4 Loans and advances (continued)

**b) Past due but not impaired loans and advances (continued)**

**December 31, 2017**

| | Not overdue | Outstanding up to 30 days | Outstanding between 31-60 days | Outstanding between 61-90 days | Outstanding between 91-180 days | Outstanding between 181-360 days | Outstanding after 360 days | Total |
|---|---|---|---|---|---|---|---|---|
| **Retail loans** | | | | | | | | |
| Credit cards | - | 224,206 | 24,576 | 4,533 | - | - | - | 253,315 |
| Consumer loans / personal loans and overdrafts | 3,401,157 | 15,355,887 | 5,790,172 | 9,617,580 | 1,482,938 | - | 620,512 | 36,268,246 |
| Mortgage / Real Estate loans | 1,559,959 | 12,596,830 | 3,370,356 | 3,348,664 | 565,878 | - | - | 21,441,687 |
| **Total gross retail loans** | **4,961,116** | **28,176,923** | **9,185,104** | **12,970,777** | **2,048,816** | **-** | **620,512** | **57,963,248** |
| Provision retail loans | -1,196,574 | -115,413 | -170,562 | -84,712 | -240,628 | - | -70,229 | -2,178,118 |
| **Total net retail loans** | **3,764,542** | **28,061,510** | **9,014,542** | **12,886,065** | **1,808,188** | **-** | **550,283** | **55,785,130** |

(all amounts are expressed in RON, unless otherwise stated)

## 3. FINANCIAL RISK MANAGEMENT (continued)

### 3.1 Credit risk (continued)

### 3.1.4 Loans and advances (continued)

#### b) Past due but not impaired loans and advances (continued)

| Corporate | Not overdue | Outstanding up to 30 days | Outstanding between 31-60 days | Outstanding between 61-90 days | Outstanding between 91-180 days | Outstanding between 181-360 days | Outstanding after 360 days | Total |
|---|---|---|---|---|---|---|---|---|
| **Total SMEs** | **66,489,559** | **179,790,862** | **1,426,890** | **24,820,884** | **29,850** | **-** | **299,842** | **272,857,887** |
| Commerce | 233,223 | 2,602,572 | 10,325 | 2,548,262 | - | - | - | 5,394,382 |
| Industry | 23,870,935 | 13,062,224 | - | 12,650,153 | - | - | 247,986 | 49,831,298 |
| Construction and real estate | 41,669,598 | 158,472,569 | 1,152,408 | 7,942,439 | 29,850 | - | 28,046 | 209,294,910 |
| Agriculture | - | - | - | - | - | - | - | - |
| Others | 715,803 | 5,653,498 | 264,157 | 1,680,030 | - | - | 23,809 | 8,337,297 |
| **Total corporate** | **-** | **9,663,498** | **1,787,815** | **-** | **-** | **-** | **-** | **11,451,313** |
| Commerce | - | - | 1,787,815 | - | - | - | - | 1,787,815 |
| Industry | - | 9,663,498 | - | - | - | - | - | 9,663,498 |

(all amounts are expressed in RON, unless otherwise stated)

## 3. FINANCIAL RISK MANAGEMENT (continued)

### 3.1 Credit risk (continued)

### 3.1.4 Loans and advances (continued)

#### b) Past due but not impaired loans and advances (continued)

| | Not overdue | Outstanding up to 30 days | Outstanding between 31-60 days | Outstanding between 61-90 days | Outstanding between 91-180 days | Outstanding between 181-360 days | Outstanding after 360 days | Total |
|---|---|---|---|---|---|---|---|---|
| **Total gross corporate loans** | 66,489,559 | 189,454,360 | 3,214,705 | 24,820,884 | 29,850 | - | 299,842 | 284,309,200 |
| Provision corporate loans | -243,116 | -171,279 | -25,751 | -152,579 | -726 | - | -5,853 | -599,305 |
| **Total net corporate loans** | 66,246,442 | 189,283,081 | 3,188,954 | 24,668,305 | 29,124 | - | 293,989 | 283,709,895 |
| **Total loans and advances to customers** | 71,450,673 | 217,631,284 | 12,399,810 | 37,791,661 | 2,078,666 | - | 920,354 | 342,272,448 |
| Provision loans and advances to customers | -1,439,690 | -286,692 | -196,313 | -537,292 | -241,354 | - | -76,082 | -2,777,423 |
| **Total net loans and advances to customers** | 70,010,982 | 217,344,592 | 12,203,497 | 37,254,370 | 1,837,312 | - | 844,272 | 339,495,025 |

**3. FINANCIAL RISK MANAGEMENT (continued)**

**3.1 Credit risk (continued)**

**3.1.4 Loans and advances (continued)**

**c) Impaired loans and advances**

The impaired loans category includes all the exposures classified to Stage 3, regardless of the value of the exposure, which fulfil, cumulatively, the following conditions:

- For corporate clients:
  a. Clients in various stages of insolvency;
  b. Clients with more than 90 days payment delays;
  c. Clients in forced execution;
  d. Clients that register at least one non-performing facility at the restructuring date, in the first restructuring year (category 3 in DATABANK classification for forborne exposures)
  e. Cases in which it is considered that, in the absence of an enforcement of the security, it is unlikely that the debtor will pay its entire credit debts, regardless of the any overdue amount or the number of days past due.
- For retail clients:
  a. Clients with more than 90 days payment delays;
  b. Clients in forced execution;
  c. Clients that register at least one non-performing facility at the restructuring date, in the first restructuring year (category 3 in DATABANK classification for forborne exposures)
  d. Cases in which it is considered that, in the absence of an enforcement of the security, it is unlikely that the debtor will pay its entire credit debts, regardless of the any overdue amount or the number of days past due;
  e. Customers who have sent applications for *ratio in solutum* to the Bank.

Also, for classification to Stage 3, the Bank will assess the separate material exposures for which triggers of default occurred.

The Bank defined the following impairment events:

- the debtor operates in real estate;
- the debtor invokes serious financial difficulties;
- payment default of more than 60 days for corporate clients and more than 30 days for retail clients;
- at least one of the facilities granted to the debtor was replaced in the past 12 months;
- the debtor's financial performance is rated E, except for clients ranked in such category for failure to present the latest financial statements,, but which had been previously rated in a better category;
- indication on the likelihood of bankruptcy or other form of reorganisation of the debtor, in case of corporate clients.

Even if at least one of the triggers of default mentioned above occurred, the Bank will assess separately the exposure of each debtor as to whether there is objective evidence of impairment.

(all amounts are expressed in RON, unless otherwise stated)

## 3. FINANCIAL RISK MANAGEMENT (Continued)

### 3.1 Credit risk (continued)

#### 3.1.4 Loans and advances (continued)

#### c) Impaired loans and advances (continued)

**December 31, 2018**

| Portfolio | Not overdue | Outstanding up to 30 days | Outstanding between 31-60 days | Outstanding between 61-90 days | Outstanding between 91-180 days | Outstanding between 181-360 days | Outstanding after 360 days | Total | Expected loss | Fair value of guarantee |
|---|---|---|---|---|---|---|---|---|---|---|
| **Total retail loans** | **4,894,906** | **321,742** | **994,943** | **1,288,832** | **5,973,559** | **1,129,315** | **10,992,000** | **25,595,297** | **-11,251,404** | **14,426,067** |
| Credit cards | - | - | - | - | 8,317 | 6,425 | 53,520 | 68,262 | -66,262 | - |
| Consumer loans / personal loans and overdrafts | 4,131,510 | 195,398 | 994,943 | 1,288,832 | 5,247,549 | 726,005 | 8,096,757 | 20,680,994 | -8,903,708 | 11,854,829 |
| Mortgage / Real estate loans | 763,396 | 126,344 | - | - | 717,693 | 396,885 | 2,841,723 | 4,846,041 | -2,279,434 | 7,571,238 |
| Expected loss for retail loans | -1,684,255 | -6,435 | -602,169 | -255,712 | -2,219,251 | -429,919 | -6,053,663 | -11,251,404 | | |
| **Total net retail loans** | **3,210,651** | **315,307** | **392,774** | **1,033,120** | **3,754,308** | **699,396** | **4,938,337** | **14,343,893** | | |

(all amounts are expressed in RON, unless otherwise stated)

## 3. FINANCIAL RISK MANAGEMENT (Continued)

### 3.1 Credit risk (continued)

### 3.1.4 Loans and advances (continued)

#### c) Impaired loans and advances (continued)

| Portfolio | Not overdue | Outstanding up to 30 days | Outstanding between 31-60 days | Outstanding between 61-90 days | Outstanding between 91-180 days | Outstanding between 181-360 days | Outstanding after 360 days | Total | Expected loss | Fair value of guarantee |
|---|---|---|---|---|---|---|---|---|---|---|
| **Total corporate loans** | **1,556,208** | **21,454,160** | **120,087** | **-** | **957,949** | **12,556,231** | **40,067,408** | **76,712,043** | **-33,550,685** | **41,854,501** |
| **SMEs** | **1,556,208** | **21,454,160** | **120,087** | **-** | **957,949** | **12,556,231** | **38,040,677** | **74,685,312** | **-33,510,150** | **39,827,770** |
| Commerce | 1,005,235 | - | 120,087 | - | - | 434,754 | 14,460,918 | 16,020,994 | -5,772,330 | 10,248,663 |
| Industry | - | 1,994,584 | - | - | - | 12,121,477 | 9,198,646 | 23,314,707 | -7,028,461 | 16,331,429 |
| Construction and real estate | 550,973 | 18,273,666 | - | - | - | - | 3,135,061 | 21,959,700 | -12,848,808 | 7,709,821 |
| Other | - | 1,185,910 | - | - | 957,949 | - | 11,246,052 | 13,389,911 | -7,860,551 | 5,537,857 |
| **Corporate** | **-** | **-** | **-** | **-** | **-** | **-** | **2,026,731** | **2,026,731** | **-40,535** | **2,026,731** |
| Commerce | - | - | - | - | - | - | 2,026,731 | 2,026,731 | -40,535 | 2,026,731 |

(all amounts are expressed in RON, unless otherwise stated)

## 3. FINANCIAL RISK MANAGEMENT (Continued)

### 3.1 Credit risk (continued)

### 3.1.4 Loans and advances (continued)

#### c) Impaired loans and advances (continued)

| Portfolio | Not overdue | Outstanding up to 30 days | Outstanding between 31-60 days | Outstanding between 61-90 days | Outstanding between 91-180 days | Outstanding between 181-360 days | Outstanding after 360 days | Total | Expected loss | Fair value of guarantee |
|---|---|---|---|---|---|---|---|---|---|---|
| Expected loss for corporate loans | -303,842 | -12,559,173 | -672 | - | -383,385 | -4,045,805 | -15,257,808 | -33,550,685 | - | - |
| **Total net corporate loans** | **1,252,366** | **8,894,987** | **119,415** | **-** | **574,564** | **8,510,426** | **23,809,600** | **43,161,358** | **-** | **-** |
| **Total loans and advances to customers** | **6,451,114** | **21,775,902** | **1,115,030** | **1,288,832** | **6,931,508** | **13,685,546** | **51,050,408** | **102,307,340** | **-44,802,089** | **56,280,568** |
| Expected loss for loans and advances to costumers | -1,988,097 | -12,565,608 | -602,841 | -255,712 | -2,602,636 | -4,475,724 | -22,311,471 | -44,802,089 | - | - |
| **Total net loans and advances to customers** | **4,463,017** | **9,210,294** | **512,189** | **1,033,120** | **4,328,872** | **9,209,822** | **28,747,937** | **57,505,251** | **-** | **-** |

(all amounts are expressed in RON, unless otherwise stated)

## 3. FINANCIAL RISK MANAGEMENT (Continued)

### 3.1 Credit risk (continued)

### 3.1.4 Loans and advances (continued)

### c) Impaired loans and advances (continued)

**December 31, 2017**

| | Not overdue | Outstanding up to 30 days | Outstanding between 31-60 days | Outstanding between 61-90 days | Outstanding between 91-180 days | Outstanding between 181-360 days | Outstanding after 360 days | Total |
|---|---|---|---|---|---|---|---|---|
| **Retail loans** | | | | | | | | |
| Credit cards | - | - | - | - | 2,843 | 3,238 | 34,456 | 40,537 |
| Consumer loans / personal loans and overdrafts | 2,512,497 | 197,323 | 1,623,084 | 3,496,223 | 3,272,492 | 1,785,527 | 5,277,428 | 18,164,573 |
| Mortgage / Real estate loans | 438,392 | - | - | 1,215,418 | 1,244,818 | 493,334 | 2,878,006 | 6,269,968 |
| **Total gross retail loans** | **2,950,889** | **197,323** | **1,623,084** | **4,711,641** | **4,520,153** | **2,282,099** | **8,189,890** | **24,475,078** |
| Provision retail loans | (847,635) | (23,541) | (206,988) | (1,183,861) | (2,393,390) | (898,558) | (4,992,049) | (10,546,022) |
| **Total net retail loans** | **2,103,254** | **173,782** | **1,416,096** | **3,527,780** | **2,126,763** | **1,383,541** | **3,197,841** | **13,929,056** |

(all amounts are expressed in RON, unless otherwise stated)

## 3. FINANCIAL RISK MANAGEMENT (Continued)

### 3.1 Credit risk (continued)

### 3.1.4 Loans and advances (continued)

#### c) Impaired loans and advances (continued)

| | Not overdue | Outstanding up to 30 days | Outstanding between 31-60 days | Outstanding between 61-90 days | Outstanding between 91-180 days | Outstanding between 181-360 days | Outstanding after 360 days | Total |
|---|---|---|---|---|---|---|---|---|
| **Corporate loans** | | | | | | | | |
| **SMEs** | **11,388,940** | **8,246,203** | **9,171,796** | **7,604,071** | **828,909** | **7,714** | **45,984,586** | **83,232,218** |
| Commerce | 954 | 7,875,775 | 95,067 | 4,460,468 | 521,765 | - | 14,809,227 | 27,763,255 |
| Industry | - | - | 2,369,300 | - | - | - | 8,533,155 | 10,902,455 |
| Construction and real estate | 11,387,986 | 370,428 | 6,707,429 | - | - | - | 13,070,082 | 31,535,925 |
| Agriculture | - | - | - | - | - | - | - | - |
| Leasing | - | - | - | - | - | - | - | - |
| Others | - | - | - | 3,143,603 | 307,144 | 7,714 | 9,572,122 | 13,030,583 |
| **Total corporate** | - | - | - | - | **1,502,795** | - | **8,199,934** | **9,702,729** |
| Commerce | - | - | - | - | - | - | - | - |
| Industry | - | - | - | - | 1,502,795 | - | 8,029,834 | 9,532,629 |
| Agriculture | - | - | - | - | - | - | 170,100 | 170,100 |
| **Total gross corporate loans** | **11,388,940** | **8,246,203** | **9,171,796** | **7,604,071** | **2,331,704** | **7,714** | **54,184,519** | **92,934,947** |

(all amounts are expressed in RON, unless otherwise stated)

## 3. FINANCIAL RISK MANAGEMENT (Continued)

### 3.1 Credit risk (continued)

### 3.1.4 Loans and advances (continued)

### c) Impaired loans and advances (continued)

| | Not overdue | Outstanding up to 30 days | Outstanding between 31-60 days | Outstanding between 61-90 days | Outstanding between 91-180 days | Outstanding between 181-360 days | Outstanding after 360 days | Total |
|---|---|---|---|---|---|---|---|---|
| Provision corporate loans | (6,865,531) | (1,708,551) | (1,519,096) | (4,359,265) | (843,950) | (7,714) | (17,183,668) | (32,487,775) |
| **Total net corporate loans** | **4,523,409** | **6,537,653** | **7,652,699** | **3,244,806** | **1,487,754** | **-** | **37,000,851** | **60,447,172** |
| **Total gross loans and advances to customers** | **14,339,829** | **8,443,526** | **10,794,880** | **12,315,711** | **6,851,857** | **2,289,814** | **62,374,409** | **117,410,025** |
| Provision loans and advances to costumers | (2,713,165) | (1,732,092) | (1,726,085) | (5,543,126) | (3,237,340) | (906,272) | (22,175,717) | (43,033,797) |
| **Total net loans and advances to customers** | **6,626,664** | **6,711,434** | **9,068,795** | **8,772,585** | **3,614,517** | **1,383,542** | **40,198,691** | **74,376,228** |

(all amounts are expressed in RON, unless otherwise stated)

## 3. FINANCIAL RISK MANAGEMENT (continued)

### 3.1 Credit risk (continued)

### 3.1.4 Loans and advances (continued)

### c) Impaired loans and advances (continued)

**The effect of the guarantees on December 31, 2018 is as follows:**

The financial effect of the guarantees is highlighted by the presentation of the guarantees values separately for (i) those assets for which the guaranties overcome or have the same value with the net accounting asset (collateral loans) and (ii) those assets for which the guarantees have a value lower than the net accounting asset value (Undersecured loans).

| | Under-secured loans | | Collateral loans | |
|---|---|---|---|---|
| | Net balance sheet exposure | Fair value guarantees | Net balance sheet exposure | Fair value guarantees |
| **Total retail loans** | **208,808,369** | **135,225,877** | **131,415,691** | **218,307,137** |
| Credit cards | 1,631,533 | - | 171,484 | 1,062,383 |
| Consumer loans / personal loans and overdrafts | 74,062,926 | 39,555,567 | 47,394,499 | 87,315,462 |
| Mortgage / Real estate loans | 133,113,910 | 95,670,310 | 83,849,708 | 129,929,292 |
| **Total corporate loans** | **395,661,882** | **190,414,408** | **138,259,563** | **225,112,370** |
| **Total SMEs** | **330,562,947** | **180,240,863** | **115,750,809** | **193,437,337** |
| Commerce | 111,375,189 | 74,267,045 | 29,391,677 | 47,971,752 |
| Industry | 42,915,110 | 18,452,444 | 24,150,054 | 36,204,677 |
| Construction and real estate | 93,363,447 | 54,204,824 | 50,497,676 | 80,513,924 |
| Agriculture | 5,846,332 | 5,030,763 | 783,439 | 1,053,988 |
| Leasing | 21,881,025 | 7,226,122 | | - |
| Other | 55,181,844 | 21,059,665 | 10,927,963 | 27,692,996 |

(all amounts are expressed in RON, unless otherwise stated)

## 3. FINANCIAL RISK MANAGEMENT (continued)

### 3.1 Credit risk (continued)

### 3.1.4 Loans and advances (continued)

#### c) Impaired loans and advances (continued)

| | Under-secured loans | | Collateral loans | |
|---|---|---|---|---|
| | Net balance sheet exposure | Fair value guarantees | Net balance sheet exposure | Fair value guarantees |
| **Total corporate** | **65,098,935** | **10,173,545** | **22,508,754** | **31,675,033** |
| Commerce | 22,173,407 | 5,226,839 | 2,926,731 | 3,429,201 |
| Industry | 41,780,594 | 4,946,706 | 9,887,502 | 17,393,261 |
| Leasing | 1,131,619 | - | - | - |
| Other | 13,315 | - | 10,594,521 | 10,852,571 |
| **Total loans and advances to customers** | **604,470,251** | **325,640,285** | **269,675,254** | **443,419,507** |

(all amounts are expressed in RON, unless otherwise stated)

## 3. FINANCIAL RISK MANAGEMENT (continued)

### 3.1 Credit risk (continued)

#### 3.1.4 Loans and advances (continued)

#### c) Impaired loans and advances (continued)

**The effect of the guarantees on December 31, 2017 is as follows:**

| | Undersecured loans | | Collateral loans | |
|---|---|---|---|---|
| | Net balance sheet exposure | Fair value guarantees | Net balance sheet exposure | Fair value guarantees |
| **Total retail loans** | **111,076,780** | **80,135,591** | **226,234,512** | **446,108,404** |
| Credit cards | 1,674,484 | 11,500 | 185,527 | 1,122,941 |
| Consumer loans / personal loans and overdrafts | 40,404,572 | 23,547,152 | 102,661,602 | 208,704,699 |
| Mortgage / Real estate loans | 68,997,724 | 56,576,939 | 123,387,383 | 236,280,764 |
| **Total corporate loans** | **74,454,941** | **38,699,485** | **469,005,372** | **795,498,310** |
| **Total SMEs** | **69,312,082** | **38,072,196** | **429,331,491** | **725,800,627** |
| Commerce | 16,007,401 | 8,002,716 | 70,788,425 | 123,999,147 |
| Industry | 18,834,056 | 12,880,314 | 65,389,865 | 126,804,073 |
| Construction and real estate | 18,573,574 | 10,446,344 | 250,968,126 | 373,818,633 |
| Agriculture | 17,152 | - | 1,141,601 | 1,580,164 |
| Lease | - | - | 22,738,690 | 51,834,038 |
| Others | 15,879,899 | 6,742,822 | 18,304,785 | 47,764,572 |

| | Undersecured loans | | Collateral loans | |
|---|---|---|---|---|
| | Net balance sheet exposure | Fair value guarantees | Net balance sheet exposure | Fair value guarantees |
| **Total corporate** | **5,142,859** | **627,289** | **39,673,881** | **69,697,683** |
| Commerce | - | - | 1,787,815 | 6,351,171 |
| Industry | 5,142,859 | 627,289 | 26,888,703 | 48,950,862 |
| Construction and real estate | - | - | 10,827,262 | 13,897,974 |
| Agriculture | - | - | 170,100 | 497,676 |
| **Total loans and advances to customers** | **185,531,721** | **118,835,077** | **695,239,883** | **1,241,606,714** |

The fair value of the real estate and collateral securities (equipment or stocks) at the end of the reporting period was estimated by increasing the amount determined by the evaluation department of the Bank, with adjustment elements depending on the security type, date of the last security evaluation, the legal condition of the customers, the place of the security, execution costs and the appraisal duration.

Starting May 2014, the Bank offsets loans to customers by directly reducing non-recoverable loans fully covered by depreciation adjustments. The Bank no longer has reasonable expectations regarding the generation of future cash flows from the respective loans, including the flows that could be obtained in the legal execution procedures. The Bank's management does not consider that these receivables meet the criteria for derecognition in the Bank's accounts.

At 31 December 2018, the amount of off-balance-sheet loans at gross value is 511,891,871 lei (2017: 453,746,984 lei).

**(all amounts are expressed in RON, unless otherwise stated)**

## 3. FINANCIAL RISK MANAGEMENT (continued)

### 3.1 Credit risk (continued)

### 3.1.4 Loans and advances (continued)

### c) Impaired loans and advances (continued)

The material changes in the value of financial assets that affected the value of expected loss during the period under review are presented in the table below:

| Expected loss for loans and advances to customers | Stage 1 12-month ECL | Stage 2 Lifetime ECL | Stage 3 Lifetime ECL | Total |
|---|---|---|---|---|
| **Impairment allowances as at December 31, 2017** | **666,876** | **2,698,653** | **52,488,867** | **55,854,395** |
| Effect from changes in accounting policies - IFRS 9 | 146,059 | 3,496,372 | -3,223,047 | 419,385 |
| **Expected loss as at January 1, 2018** | **812,935** | **6,195,025** | **49,265,820** | **56,273,780** |
| Changes in expected loss | | | | |
| - Transfer to Stage 1 | 1,596,678 | -1,588,407 | -8,271 | - |
| - Transfer to Stage 2 | -58,918 | 1,097,498 | -1,038,580 | - |
| - Transfer to Stage 3 | -1,073 | -351,498 | 352,571 | - |
| - Increases due to changes in credit risk | 1,551,260 | 25,718,749 | 20,707,119 | 47,977,128 |
| - Decreases due to changes in credit risk | -2,860,912 | -19,164,135 | -13,449,472 | -35,474,519 |
| - Write-offs | - | -5,569,570 | -8,049,888 | -13,619,459 |
| Expected loss for new financial assets | 2,346,550 | 68,407 | 243,233 | 2,658,190 |
| Expected loss for derecognised financial assets | - | - | 1,095,721 | 1,095,721 |
| FX differences and other changes | -126,561 | -393,087 | -2,724,722 | -3,244,370 |
| **Expected loss as at December 31, 2018** | **3,259,959** | **5,412,982** | **44,802,089** | **53,475,030** |
| of which, unwinding | - | - | -9,064,772 | -9,064,772 |
| **Expected loss as at December 31, 2018 net of unwinding** | **3,259,959** | **5,412,982** | **35,737,317** | **44,410,258** |

**(all amounts are expressed in RON, unless otherwise stated)**

## 3. FINANCIAL RISK MANAGEMENT (continued)

### 3.1 Credit risk (continued)

### 3.1.4 Loans and advances (continued)

### c) Impaired loans and advances (continued)

| **Expected loss for loans and advances to banks** | **Stage 1 12-month ECL** | **Stage 2 Lifetime ECL** | **Stage 3 Lifetime ECL** | **Total** |
|---|---|---|---|---|
| **Impairment allowances as at December 31, 2017** | **62.150** | **67.206** | **7.994** | **137.350** |
| Effect from changes in accounting policies – IFRS 9 | 32.011 | 122.840 | 29.971 | 184.822 |
| **Expected loss as at January 1, 2018** | **94.161** | **190.046** | **37.965** | **322.172** |
| Changes in expected loss | | | | |
| - Transfer to Stage 1 | 852 | -841 | -12 | - |
| - Transfer to Stage 2 | -35.292 | 38.933 | -3.641 | - |
| - Transfer to Stage 3 | - | - | - | - |
| - Increases due to changes in credit risk | 19.396 | 2.146 | - | 21.542 |
| - Decreases due to changes in credit risk | -20.242 | -2.094 | -4.934 | -27.270 |
| Expected loss for new financial assets | 394.346 | 8.373 | - | 402.719 |
| Expected loss for derecognised financial assets | - | - | - | - |
| FX differences and other changes | 10.992 | -194.986 | 5.096 | -178.898 |
| **Expected loss as at December 31, 2018** | **464.213** | **41.577** | **34.474** | **540.264** |

(all amounts are expressed in RON, unless otherwise stated)

**3. FINANCIAL RISK MANAGEMENT (continued)**

**3.1 Credit risk (continued)**

**3.1.4 Loans and advances (continued)**

**c) Impaired loans and advances (continued))**

| Expected loss for investments held to maturity | Stage 1 12-month ECL | Stage 2 Lifetime ECL | Stage 3 Lifetime ECL | Total |
|---|---|---|---|---|
| **Impairment allowances as at December 31, 2017** | - | - | - | - |
| Effect from changes in accounting policies - IFRS 9 | 45.861 | 38.230 | - | 84.091 |
| **Expected loss as at January 1, 2018** | **45.861** | **38.230** | - | **84.091** |
| Changes in expected loss | | | | |
| - Transfer to Stage 1 | - | - | - | - |
| - Transfer to Stage 2 | - | - | - | - |
| - Transfer to Stage 3 | - | - | - | - |
| - Increases due to changes in credit risk | 13.122 | 813.024 | - | 826.146 |
| - Decreases due to changes in credit risk | -46.403 | -787.827 | - | -834.230 |
| - Write-offs | - | - | - | - |
| - Changes not leading to derecognition | - | - | - | - |
| Expected loss for new financial assets | 30.597 | 425.459 | - | 456.056 |
| Expected loss for derecognised financial assets | - | - | - | - |
| Changes in risk models/parameters | - | - | - | - |
| FX differences and other changes | -31.918 | -311.953 | - | -343.870 |
| **Expected loss as at December 31, 2018** | **11.259** | **176.933** | - | **188.192** |

(all amounts are expressed in RON, unless otherwise stated)

**3. FINANCIAL RISK MANAGEMENT (continued)**

**3.1. Credit risk (continued)**

**3.1.4. Loans and advances (continued)**

**c) Impaired loans and advances (continued)**

| Expected loss for investments held to amortized cost | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **Impairment allowances as at December 31, 2017** | - | - | - | - |
| Effect from changes in accounting policies – IFRS 9 | 295.593 | - | - | 295.593 |
| **Expected loss as at January 1, 2018** | **295.593** | - | - | **295.593** |
| Changes in expected loss | | | | |
| - Transfer to Stage 1 | - | - | - | - |
| - Transfer to Stage 2 | - | - | - | - |
| - Transfer to Stage 3 | - | - | - | - |
| - Increases due to changes in credit risk | 45.603 | - | - | 45.603 |
| - Decreases due to changes in credit risk | -133.800 | - | - | -133.800 |
| - Write offs | - | - | - | - |
| - Changes not leading to derecognition | - | - | - | - |
| Expected loss for new financial assets | 168.028 | - | - | 168.028 |
| Expected loss for derecognised financial assets | - | - | - | - |
| Changes in risk models/parameters | - | - | - | - |
| FX differences and other changes | -7.020 | - | - | -7.020 |
| **Pierderi asteptate la data de 31 decembrie 2018** | **368.403** | - | - | **368.403** |

**(all amounts are expressed in RON, unless otherwise stated)**

## 3. FINANCIAL RISK MANAGEMENT (continued)

### 3.1 Credit risk (continued)

### 3.1.4 Loans and advances (continued)

### c) Impaired loans and advances (continued)

| **Total loans and advances to customers** | **Stage 1 12-month ECL** | **Stage 2 Lifetime ECL** | **Stage 3 Lifetime ECL** | **Total** |
|---|---|---|---|---|
| **Gross value as at December 31, 2017*** | **401,946,460** | **356,605,024** | **131,620,855** | **890,172,339** |
| Effect from changes in accounting policies - IFRS 9 | - | - | - | - |
| **Gross value as at January 1, 2018** | **401,946,460** | **356,605,024** | **131,620,855** | **890,172,339** |
| Changes in gross value | | | | |
| - Transfer to Stage 1 | 47,194,949 | -47,059,883 | -135,065 | - |
| - Transfer to Stage 2 | -32,637,466 | 34,497,466 | -1,860,000 | - |
| - Transfer to Stage 3 | -104,992 | -23,408,992 | 23,513,985 | - |
| - Changes not leading to derecognition | -68,863,713 | -198,533,954 | -37,020,721 | -304,418,388 |
| New financial assets | 298,255,849 | 2,073,802 | 479,950 | 300,809,602 |
| Derecognised financial assets | - | - | -8,503,296 | -8,503,296 |
| Write-offs | - | -5,569,571 | -8,962,054 | -14,531,624 |
| Other changes | 4,686,047 | 2,757,139 | 3,173,686 | 10,616,872 |
| **Total loans and advances to customers as at December 31, 2018** | **650,477,134** | **121,361,031** | **102,307,340** | **874,145,505** |
| **Expected loss as at December 31, 2018** | **-3,259,959** | **-5,412,982** | **-44,802,089** | **-53,475,030** |

* The digits do not include the IRC correction currently transferred to expected loss.

(all amounts are expressed in RON, unless otherwise stated)

## 3. FINANCIAL RISK MANAGEMENT (continued)

### 3.1. Credit risk (continued)

### 3.1.4 Loans and advances (continued)

### c) Impaired loans and advances (continued)

| Total off-balance sheet exposure | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **Gross value as at December 31, 2017** | **13.064.068** | **12.418.999** | **75.929** | **25.558.996** |
| Effect from changes in accounting policies - IFRS 9 | - | - | - | - |
| **Gross value as at January 1, 2018** | **13.064.068** | **12.418.999** | **75.929** | **25.558.996** |
| Transfers between stages | 7.470.917 | -7.487.023 | 16.106 | - |
| Net movement in the year | 73.819.511 | -4.602.886 | -23.088 | 69.193.536 |
| **Total off-balance sheet loans and advances to customers as at December 31, 2018** | **94.354.496** | **329.090** | **68.948** | **94.752.534** |
| **Pierderi asteptate la data de 31 decembrie 2018** | **-464.214** | **-41.577** | **-34.474** | **-540.264** |

(all amounts are expressed in RON, unless otherwise stated)

## 3. FINANCIAL RISK MANAGEMENT (continued)

### 3.1 Credit risk (continued)

### 3.1.4 Loans and advances (continued)

#### c) Impaired loans and advances (continued)

| Total loans and advances to banks | Stage 1<br>12-month ECL | Stage 2<br>Lifetime ECL | Stage 3<br>Lifetime ECL | Total |
|---|---|---|---|---|
| **Gross value as at December 31, 2017** | 575,680,029 | 6,737,612 | - | 582,417,641 |
| Effect from changes in accounting policies - IFRS 9 | - | - | - | - |
| **Gross value as at January 1, 2018** | 575,680,029 | 6,737,612 | - | 582,417,641 |
| Changes in gross value | | | | |
| - Transfer between stages | - | - | - | - |
| Net movement in loans and advances to banks during 2018 | -264,363,754 | -219,172,223 | - | -45,191,530 |
| **Total loans and advances to banks as at December 31, 2018** | 311,316,275 | 225,909,835 | - | 537,226,111 |
| **Expected loss as at December 31, 2018** | -11,259 | -176,933 | - | -188,192 |

(all amounts are expressed in RON, unless otherwise stated)

## 3. FINANCIAL RISK MANAGEMENT (continued)

### 3.1 Credit risk (continued)

#### 3.1.4 Loans and advances (continued)

#### c) Impaired loans and advances (continued)

| Total investments held to maturity | Stage 1 12-month ECL | Stage 2 Lifetime ECL | Stage 3 Lifetime ECL | Total |
|---|---|---|---|---|
| **Gross value as at December 31, 2017** | **252,253,855** | - | - | **252,253,855** |
| Effect from changes in accounting policies - IFRS 9 | - | - | - | - |
| **Gross value as at January 1, 2018** | **252,253,855** | - | - | **252,253,855** |
| - Transfers between stages | | - | | |
| Net movement in investments held to maturity during 2018 | 55 300 865 | - | - | 55 300 865 |
| **Total investments held to maturity as at December 31, 2018** | **307,554,720** | - | - | **307,554,720** |
| **Expected loss as at December 31, 2018** | **- 368,403** | - | - | **- 368,403** |

(all amounts are expressed in RON, unless otherwise stated)

## 3. FINANCIAL RISK MANAGEMENT (continued)

### 3.1 Credit risk (continued)

### 3.1.4 Loans and advances (continued)

### d) Restructured loans and advances

A change in a financial asset occurs when the contractual clauses governing the cash flows of a financial asset are renegotiated or otherwise altered between the initial recognition and the maturity of the financial asset. A change affects the value and / or timing of contractual cash flows either immediately or at a later date.

The Bank renegotiates loans to customers in financial distress to maximize collection and minimize the risk of default (restructuring). A postponement of payment is granted in cases where, although the borrower has made all reasonable efforts to pay under the initial contractual terms, there is a high risk of default and the borrower is expected to meet the revised conditions. The revised terms in most cases include an extension of the maturity of the loan, changes in the timing of the cash flows of the loan within the initial contractual maturity, refinancing outstanding principal and interest. The Bank has a restructuring policy that applies to its corporate and retail clients.

| Type of restructuring | 31.12.2018 | | |
|---|---|---|---|
| | Gross exposure | Expected loss | Net book value |
| Extension of maturity | 55,481,078.28 | 18,683,346.50 | 36,797,731.79 |
| Refinancing | 18,420,388.63 | 4,070,865.65 | 14,349,522.98 |
| Rescheduling within contractual maturity | 35,109,151.34 | 3,837,232.83 | 31,271,918.52 |
| **Total restructuring operations** | **109,010,618.25** | **26,591,444.97** | **82,419,173.28** |

| Type of restructuring | 31.12.2017 | | |
|---|---|---|---|
| | Gross exposure | Expected loss | Net book value |
| Extension of maturity | 117,217,708.96 | 16,588,666.73 | 100,629,042.22 |
| Refinancing | 25,179,046.93 | 6.441.768 | 18.737.259 |
| Rescheduling within contractual maturity | 57,071,148.29 | 8.777.645 | 48.293.504 |
| **Total restructuring operations** | **199,467,904.18** | **31,808,099.71** | **167,659,804.47** |

(all amounts are expressed in RON, unless otherwise stated)

## 3. FINANCIAL RISK MANAGEMENT (continued)

### 3.1 Credit risk (continued)

#### 3.1.5 Securities portfolio

The table below presents the analysis of the investments securities portfolio as at December 31, 2018 and December 31, 2017, based on the Standard & Poor's ratings or equivalent:

| | December 31, 2018 | December 31, 2017 | Rating December 31, 2018 | Rating December 31, 2017 |
|---|---|---|---|---|
| Investments at amortised cost (i) | 307,186,317 | 252,253,855 | BBB- | BBB- |
| Financial assets at fair value through other comprehensive income (ii) | 3,708,235 | 3,163,604 | A+/A-1 | A+/A-1 |

*(i) The investments at amortised cost are securities issued by the Romanian Government and have a low credit risk. As at December 31, 2018 and December 31, 2017 the credit rating for Romania was BBB- with fixed perspective.*

*(ii) The financial assets at fair value through other comprehensive income represent the Bank's participation in Visa Europe Limited and the Credit Office.*

#### 3.1.6 Placements with banks

The table below presents the analysis of the placements with banks by evaluations performed on December 31, 2018 and December 31, 2017, based on the Standard & Poor's ratings or equivalent:

| | December 31, 2018 Total balance | December 31, 2017 Total balance | Rating December 31, 2018 Long/ short term | Rating December 31, 2017 Long/ short term |
|---|---|---|---|---|
| **Current accounts** | | | | |
| Investment Bank of Greece | 80,648 | 2,312,202 | - | - |
| EFG Eurobank Ergasias | 2,994,809 | 4,425,410 | B-/B | CCC+/C |
| **Placements with banks** | | | | |
| ING Bank Romania | - | 35,029,736 | A+/A-1 | A+/A-1 |
| Unicredit Romania | - | 5,837,591 | - | - |
| Eximbank | - | 55,947,050 | - | - |
| First Bank SA | 40,014,454 | - | - | - |
| Piraeus Bank Athens | 32,575,359 | - | B-/B | - |
| Investment Bank of Greece | 160,352,638 | - | - | - |
| Rothschild Bank AG | 71,149,606 | - | - | - |
| Aegean Baltic Bank SA | 29,729,449 | - | - | - |
| **Total placements with banks** | **336,896,963** | **103,551,989** | - | - |

## 3. FINANCIAL RISK MANAGEMENT (continued)

### 3.2 Market risk

The market risk represents the possibility of some economic losses resulted out of the variations of the market prices and instalments, including equity and prices, as well as, interest rates and of the exchange rate. The market risk may affect, in general, both the position of the financial instruments portfolio and the banking intermediations portfolio, as well as assets and liabilities elements of the balance sheet. The bank applied generally accepted technics for the evaluation of the market risk, such as the incomes analysed depending on the risk and sensitivity indicators.

As mentioned within the Strategy regarding the management of the significant risks, the objective related to the risks of the interest rate and the exchange rate are to maintain those parameters at a medium risk level, low risk level, respectively.

Earning at Risk (EaR) indicator expresses the sensitivity of the net income resulted from the interest rate at the alterations suffered for a pre-defined period of time, usually one year.

The decrease of the economic value of the Bank (long time discrepancy) measures the alteration of the value of the economic potential of the Bank due to the rate interest variations outside the financial instruments portfolio.

The global exposure of the interest rate risk from the activities outside the trading portfolio in all currencies and all due dates should not be over 20% of the equity regulated by the Bank after applying a parallel standard shock of 200 basis points.

The objective for the management of the interest rate risk is to obtain a maximum decrease of the impact over the economic value of the Bank, as a consequence of applying the standard stress shock, under 8% of the equity of the Bank. The Bank is considering to maintain a low medium level regarding the interest rate risk.

As far as the exchange rate risk is concerned, the Bank established maximum limits of the opened positions for each currency, the maximum being of EUR 3.5 mil., a maximum level of daily VaR of EUR 50 thousand.

The Bank shall maintain a level of 2-4% of the total currency position in comparison to the equity to be framed within the medium-low risk category. Under the level of 2%, there shall be considered low risk profile, while over 8% there shall be a medium to high risk level, pointing out the need to decrease the currency position.

### 3.3 Currency risk

The Bank is exposed to the effects of the exchange rates fluctuations in force over its financial positions and over cash flows. The Bank establishes limits regarding the exposure level according the currency for the overnight and intra-day positions, which are monitored on a daily basis.

The tables below summarizes the exposure of the Bank at the exchange rate risk on December 31, 2018 and December 31, 2017. The table also includes the financial assets and liabilities of the Bank at their carrying amount, classified according to the currency.

(all amounts are expressed in RON, unless otherwise stated)

## 3. FINANCIAL RISK MANAGEMENT (continued)

### 3.3 Currency risk (continued)

**December 31, 2018**

| | RON | EUR | USD | Other currencies | Total |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash and balances with central banks | 134,205,985 | 95,517,292 | 2,319,642 | 3,166,113 | 235,209,032 |
| Placements with banks | 40,014,454 | 198,709,530 | 93,806,027 | 4,366,952 | 336,896,963 |
| Investments at amortised cost | 279,395,489 | 23,729,068 | 4,061,760 | - | 307,186,317 |
| Loans and advances to customers, net of adjustments for impairment | 370,020,675 | 449,691,995 | 335,265 | 622,540 | 820,670,475 |
| Financial assets at fair value through other comprehensive income | 31,432 | 546,003 | 1,130,800 | - | 1,708,235 |
| Other financial assets | 340,308 | 1,262,018 | 54,820 | 2,646 | 1,659,794 |
| **Total financial assets (A)** | **824,008,343** | **769,455,906** | **103,708,314** | **8,158,253** | **1,705,330,816** |
| **Financial liabilities** | | | | | |
| Bank deposits | 66,748,373 | - | - | - | 66,748,373 |
| Customers deposits | 751,099,970 | 769,951,347 | 104,512,245 | 8,129,870 | 1,633,693,432 |
| Subordinated loans | - | - | - | - | |
| Other financial liabilities | 2,322,421 | 1,000,671 | 261,179 | 1,818 | 3,586,089 |
| **Total financial liabilities (B)** | **820,170,764** | **770,952,018** | **104,773,424** | **8,131,688** | **1,704,027,894** |
| **Net financial assets/ liabilities (A-B)** | **3,837,579** | **-1,496,112** | **-1,065,110** | **26,565** | **1,302,922** |

The category other currencies includes, mainly, the Swiss franc and British pound.

(all amounts are expressed in RON, unless otherwise stated)

## 3. FINANCIAL RISK MANAGEMENT (continued)

### 3.3 Currency risk (continued)

| December 31, 2017 | RON | EUR | USD | Other currencies | Total |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash and balances with central banks | 150,150,438 | 354,121,950 | 2,465,857 | 4,389,250 | 511,127,495 |
| Placements with banks | - | 2,209,608 | 97,852,579 | 3,489,802 | 103,551,989 |
| Investments at amortised cost | 228,199,933 | 34,053,922 | - | - | 252,253,855 |
| Loans and advances to customers, net of adjustments for impairment | 243,999,905 | 588,892,705 | 790,026 | 635,306 | 834,317,944 |
| Financial assets at fair value through other comprehensive income | 33,461 | 545,511 | 2,584,632 | - | 3,163,604 |
| Other financial assets | 314,848 | 1,256,455 | 53,943 | 2,065 | 1,627,311 |
| **Total financial assets (A)** | **622,698,585** | **971,080,151** | **103,747,039** | **8,516,423** | **1,706,042,198** |
| **Financial liabilities** | | | | | |
| Bank deposits | 329,054 | 135,896,268 | - | - | 136,225,322 |
| Customers deposits | 738,053,845 | 645,977,919 | 99,924,204 | 7,860,273 | 1,491,816,241 |
| Subordinated loans | - | 186,435,649 | - | - | 186,435,649 |
| Other financial liabilities | 10,039,050 | 3,533,252 | 566,125 | 4,675 | 14,143,102 |
| **Total financial liabilities (B)** | **748,421,949** | **971,843,088** | **100,490,329** | **7,864,948** | **1,828,620,314** |
| **Net financial assets/ liabilities (A-B)** | **(125,723,364)** | **(762,937)** | **3,256,710** | **651,475** | **(122,578,116)** |

## 3. FINANCIAL RISK MANAGEMENT (continued)

### 3.4 Interest rate risk

The interest rate risk regarding the cash flow is the risk that the future cash flows of a financial instrument fluctuates due to changes of the interest rate on the market. The interest rate risk regarding the fair value is the risk that the value of a financial instrument to fluctuate due to changes of the interest rate on the market. The bank is exposed to risks regarding the effects of the fluctuation of the interest rate on the market, both as far as the fair value is concerned and the cash flow. The interest margins may be increased as a consequence of such changes, but they may decrease or create losses if there is any unforeseen movement.

The objectives established by the risk profile are performed, mainly, by constant monitoring of the indicators for the interest rate risk (relative GAP, the level of the return in conjunction with the average interest level, the difference between the medium active interest of the foreign currency credit and the costs of the sources cumulatively attracted with the risk margin, etc.).

The bank determines and monitors on a quarterly/monthly basis the indicator "potential change of the economic value" as a consequence of the change of the interest rates levels, by applying some sudden and unexpected changes of the interest rates – standard shock/shocks of 200 basis points in both directions, regardless the currency.

Also, for the prevention of inconsistencies regarding risk tolerance and the risk taking profile, the Bank monitors the dynamic evolution of the assets and liabilities of the Bank sensitive at the variation of the interest rate, makes assumptions, scenarios and "stress testing" simulations.

The internal regulations regarding the market risk are presented for approval towards the Board of Directors.

(all amounts are expressed in RON, unless otherwise stated)

## 3. FINANCIAL RISK MANAGEMENT (continued)

### 3.4 Interest rate risk (continued)

The table below presents the Bank's exposure to the interest rate risk as at December 31, 2018 and on December 31, 2017. There are included within the table, the financial assets and liabilities of the Bank at the carrying amounts, classified according to the most recent date between the interest rate alteration date and the maturity date.

**December 31, 2018**

| | Less than 1 month | 1 - 3 months | 3 months – 1 year | 1 year - 5 years | Over 5 years | Interest free | Total |
|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | |
| Cash and balances with central banks | 200,140,956 | - | - | - | - | 35,068,076 | 235,209,032 |
| Placements with banks | 336,750,249 | - | - | - | - | 146,714 | 336,896,963 |
| Loans and advances to customers | 771,349,531 | 19,543,178 | 7,145,998 | 5,645,553 | 6,673,847 | 10,312,368 | 820,570,475 |
| Investments at amortised cost | - | - | 113,917,735 | 187,993,988 | - | 5,274,594 | 307,186,317 |
| Financial assets at fair value through other comprehensive income | - | - | - | - | - | 3,708,235 | 3,708,235 |
| Other financial assets | - | - | - | - | - | 1,659,794 | 1,659,794 |
| **Total financial assets** | **1,308,240,736** | **19,543,178** | **121,063,733** | **193,639,541** | **6,673,847** | **56,169,781** | **1,705,330,816** |
| **Financial liabilities** | | | | | | | |
| Bank deposits | 66,729,054 | - | - | - | - | 19,319 | 66,748,373 |
| Customers deposits | 435,439,323 | 167,680,851 | 1,001,217,717 | 22,297,677 | 3,930,295 | 3,127,568 | 1,633,693,432 |
| Subordinated loans | - | - | - | - | - | - | - |
| Other financial liabilities | - | - | - | - | - | 3,586,089 | 3,586,089 |
| **Total financial liabilities** | **502,168,377** | **167,680,851** | **1,001,217,717** | **22,297,677** | **3,930,296** | **6,732,976** | **1,704,027,894** |
| **Total sensitivity at the interest rate (gap)** | **806,072,359** | **-148,137,673** | **-880,153,984** | **171,341,864** | **2,743,551** | **49,436,805** | **1,302,922** |

Line Loans and advances to customers for less than 1 month includes loans in amount of 369,154,067 with an interest rate discount period of 3M for which the following date for an interest rate change is less than one month.

**(all amounts are expressed in RON, unless otherwise stated)**

## 3. FINANCIAL RISK MANAGEMENT (continued)

### 3.4 Interest rate risk (continued)

**December 31, 2017**

| | Less than 1 month | 1 – 3 months | 3 months – 1 year | 1 year – 5 years | Over 5 years | Interest free | Total |
|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | |
| Cash and balances with central banks | 478,865,652 | - | - | - | - | 32,261,843 | 511,127,495 |
| Placements with banks | 103,538,674 | - | - | - | - | 13,315 | 103,551,989 |
| Loans and advances to customers | 820,073,031 | 598,739 | 1,018,239 | 1,642,009 | 1,866,790 | 9,119,136 | 834,317,944 |
| Investments at amortised cost | 55,052,710 | - | 15,603,697 | 176,604,935 | - | 4,992,513 | 252,253,855 |
| Financial assets at fair value through other comprehensive income | - | - | - | - | - | 3,163,604 | 3,163,604 |
| Other financial assets | - | - | - | - | - | 1,627,311 | 1,627,311 |
| **Total financial assets** | **1,457,530,067** | **598,739** | **16,621,936** | **178,246,944** | **1,866,790** | **51,177,722** | **1,706,042,198** |
| **Financial liabilities** | | | | | | | |
| Bank deposits | 136,025,105 | - | - | - | - | 200,217 | 136,225,322 |
| Customers deposits | 297,803,537 | 213,003,474 | 968,401,078 | 8,082,340 | 2,990,693 | 1,535,119 | 1,491,816,241 |
| Subordinated loans | - | 46,597,000 | - | 139,791,000 | - | 47,649 | 186,435,649 |
| Other financial liabilities | - | - | - | - | - | 14,143,102 | 14,143,102 |
| **Total financial liabilities** | **433,828,642** | **259,600,474** | **968,401,078** | **147,873,340** | **2,990,693** | **15,926,087** | **1,828,620,314** |
| **Total sensitivity at the interest rate (gap)** | **1,023,701,425** | **-259,001,735** | **-951,779,142** | **30,373,604** | **-1,123,903** | **35,251,635** | **-122,578,116** |

Line Loans and advances to customers for less than 1 month includes loans in amount of 134,768,064 with an interest rate discount period of 3M for which the following date for an interest rate change is less than one month

(all amounts are expressed in RON, unless otherwise stated)

## 3. FINANCIAL RISK MANAGEMENT (continued)

### 3.4 Interest rate risk (continued)

**Sensitivity analysis**

| | Effect on profit or loss | |
|---|---|---|
| | December 31, 2018 | December 31, 2017 |
| RON | 1,349,183/-1,349,183 | +2,853/-2,853 |
| EUR | +5,676,746/-5,676,746 | +7,861,729/-7,861,729 |
| USD | +546,939/-546,939 | +834,889/-834,889 |
| **TOTAL Interest rate (± 200 b.p.)** | **+7,572,868/-7,572,868** | **+8,699,471/-8,699,471** |

| Volatility interval | Stressed currency profile | Currency position % own funds 2018 | Currency position % own funds 2017 | Effect on profit or loss 2018 | Effect on profit or loss 2017 |
|---|---|---|---|---|---|
| 5 business days | current level | 0,41% | 1,32% | -142,347 | -451,871 |
| | average | 5% | | -1.067.378 | -1,588,007 |
| | average-high | 7% | | -1.494.329 | -2,223,209 |
| | high | 15% | | -3.202.135 | -4,764,020 |
| 10 business days | current level | 0,41% | 1,32% | -220,737 | -611.963 |
| | average | 5% | | -1.432.919 | -2,085,408 |
| | average-high | 7% | | -2.006.087 | -2,919,571 |
| | high | 15% | | -4.298.758 | -6,256,223 |

Highest changes in the foreign exchange rates in the last 10 years

| Interval | EUR | USD | GBP | CHF |
|---|---|---|---|---|
| 5 business days | 7.86% | 14.64% | 16.58% | 22.68% |
| 10 business days | 5.93% | 8.42% | 13.84% | 20.42% |

As at December 31, 2018, if the interest rate on the market had been 200 bp higher and the other variables had been maintained at a constant level, the net profit of the following year would have been RON 7,573 thousand higher (2017: RON 8,699 thousand higher).

On December 31, 2018, if the exchange rates had negatively fluctuate at a value equal to the maximum registered in any 10 consecutive business days in the last 10 years (the other variables being maintained at a constant level) the net profit of the year would have been RON 221 thousand lower (2017: RON 612 thousand lower).

**Parameters for calculating sensitivity**

The sensitivity towards the interest rate: calculation based on the measures equivalent to the duration presented within the IR Gap report. Taking into consideration the fluctuations of the interest rated from the previous year, as well as the analysis and assumptions of the Treasury Department, it is considered that 200 basis points represent a reasonable estimate of the interest rate movement.

## 3. FINANCIAL RISK MANAGEMENT (continued)

### 3.4 Interest rate risk (continued)

The sensitivity towards the exchange rate: calculation based on the open positions in foreign currency, at the reporting date and stressed position corresponding to high risk profiles. The exchange rate fluctuations are determined by calculating the maximum variation of foreign exchange rates in any 5 / 10 consecutive business days in the last 10 years. It its estimated that an extremely high open position may be closed in 1-2 days' time, but extreme intervals of 5-10 days are used in which it is estimated that the currency position will be dropped at the level assumed in the risk profile. The effects on profit or loss, the additional capital required, the change of solvency ratio are calculated.

### 3.5 Liquidity risk

Liquidity risk indicates the current or future risk of adverse outcome of the profits and share capital, determined by the Bank's incapacity to fulfil its liabilities on due date, taking into consideration the volatility of the deposits which ensure, mainly, the funding, because certain creditors are more sensitive to the market events than others.

The Bank is exposed to daily requirements regarding settlement in cash deposits with 1 day maturity date, current accounts, drawdowns of loans and guarantees. The Bank does not keep monetary excessive resources in order to be able to honour all these liabilities, the experience indicating that a minimum level of reinvestment of the due founds may be provided with a high level of certitude. The Bank establishes limits regarding the minimum level of the necessary funds for honouring such requirements, which must be available to cover withdrawals at unforeseen request levels.

#### a) Cash flows related to non-derivative financial instruments

The table below presents the cash flows which must be paid by the Bank in accordance with the financial liabilities until the contractual due dates at the balance sheet date and the expected payment date. The financial liabilities presented within the table represent non-updated contractual cash flows. The financial assets presented within the table represent non-updated contractual cash flows corresponding to receivables registered as at the balance sheet date. The Bank manages the liquidity risk on the basis of the estimated undiscounted cash flows.

(all amounts are expressed in RON, unless otherwise stated)

## 3. FINANCIAL RISK MANAGEMENT (continued)

### 3.5 Liquidity risk (continued)

#### a) Cash flows related to non-derivative financial instruments (continued)

**As at December 31, 2018**

| | Less than 1 month | 1 – 3 months | 3 months - 1 year | 1 - 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Cash and cash equivalents with central banks | 235,209,032 | - | - | - | - | 235,209,032 |
| Placements with banks | 336,896,963 | - | - | - | - | 336,896,963 |
| Loans and advances to customers | 42,130,215 | 42,943,865 | 265,657,656 | 168,528,676 | 301,410,063 | 820,670,475 |
| Investments at amortised cost | - | - | 115,769,453 | 191,416,864 | - | 307,186,317 |
| Financial assets at fair value through other comprehensive income | 3,708,235 | - | - | - | - | 3,708,235 |
| Other financial assets | 1,659,794 | - | - | - | - | 1,659,794 |
| **Total financial assets (contractual maturities)** | **619,604,239** | **42,943,865** | **381,427,109** | **359,945,540** | **301,410,063** | **1,705,330,816** |
| **Financial liabilities** | | | | | | |
| Bank deposits | 66,760,267 | - | - | - | - | 66,760,267 |
| Customers deposits | 436,113,902 | 170,483,378 | 1,012,761,501 | 23,486,778 | 4,987,186 | 1,647,831,845 |
| Subordinated loans | - | - | - | - | - | - |
| Other financial liabilities | 3,586,089 | - | - | - | - | 3,586,089 |
| Loans and other liabilities regarding lending | 67,105,694 | - | - | - | - | 67,105,694 |
| Guarantee letters issued | 27,646,840 | - | - | - | - | 27,646,840 |
| **Total financial liabilities (contractual maturities)** | **601,211,892** | **170,483,378** | **1,012,761,501** | **23,486,778** | **4,987,186** | **1,812,930,735** |
| **Net position** | **18,392,347** | **-127,539,513** | **-631,334,392** | **336,458,762** | **296,422,877** | **-107,599,919** |

The liquidity risk is represented by the difficulty of an entity to fulfil its contractual liabilities. The Bank has a net position of less than 1 year because of the short maturity of the customers' deposits, but also of the credit institutions. The Bank does not keep monetary resources in order to honor all these liabilities, the experience indicating that a minimum level of reinvestment of the due founds may be provided with a high level of certitude; based on the history related to the prolongations of the deposits by the customers, the Bank reasonably considers these financing resources as being stable.

(all amounts are expressed in RON, unless otherwise stated)

## 3. FINANCIAL RISK MANAGEMENT (continued)

### 3.5 Liquidity risk (continued)

#### a) Cash flows related to non-derivative financial instruments (continued)

**As at December 31, 2017**

| | Less than 1 month | 1 – 3 months | 3 months - 1 year | 1 - 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Cash and cash equivalents with central banks | 511,127,495 | - | - | - | - | 511,127,495 |
| Placements with banks | 103,551,989 | - | - | - | - | 103,551,989 |
| Loans and advances to customers | 234,126,847 | 16,173,967 | 129,850,332 | 136,432,804 | 317,733,994 | 834,317,944 |
| Investments held to maturity | 56,761,850 | - | 15,681,944 | 179,810,061 | - | 252,253,855 |
| Available-for-sale investments | 3,163,604 | - | - | - | - | 3,163,604 |
| Other financial assets | 1,627,311 | - | - | - | - | 1,622,311 |
| **Total financial assets (contractual maturities)** | **910,359,096** | **16,173,967** | **145,532,276** | **316,242,865** | **317,733,994** | **1,706,042,198** |
| **Financial liabilities** | | | | | | |
| Bank deposits | 99,271,867 | 37,088,668 | - | - | - | 136,360,535 |
| Custumers deposits | 297,944,735 | 215,695,909 | 976,193,756 | 8,817,228 | 3,870,285 | 1,502,521,913 |
| Subordinated loans | - | 1,408,575 | 4,270,242 | 21,528,901 | 191,583,346 | 218,791,064 |
| Other financial liabilities | 14,143,102 | - | - | - | - | 14,143,102 |
| Loans and other liabilities regarding lending | 9,336,712 | - | - | - | - | 9,336,712 |
| Guarantee letters issued | 16,316,956 | - | - | - | - | 16,316,956 |
| **Total financial liabilities (contractual maturities)** | **437,013,372** | **254,193,152** | **980,463,998** | **30,346,129** | **195,453,631** | **1,897,470,282** |
| **Net position** | **473,345,724** | **(238,019,185)** | **(834,931,722)** | **285,896,736** | **122,280,363** | **(191,428,084)** |

(all amounts are expressed in RON, unless otherwise stated)

## 3. FINANCIAL RISK MANAGEMENT (continued)

### 3.6 The fair values of the financial assets and liabilities

The analysis of the fair value scale of the financial instruments measured at the fair value.

Level 1 - includes instruments listed on the active markets for identical assets or liabilities;

Level 2 - includes instruments whose fair value is determined using observable information for assets or liabilities, directly (such as prices) or indirectly (such as prices derivatives); and

Level 3 - includes instruments whose fair value is determined using information which are not relied on observable market data (unobservable entries).

**Assets and liabilities measured at fair value as at December 31, 2018**

| **Financial assets** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| ***Other financial assets*** | | | | |
| *Financial assets at fair value through other comprehensive income, of which:* | | | | |
| - Participations | - | - | 3,708,235 | 3,708,235 |
| **Total assets stated at fair value** | **-** | **-** | **3,708,235** | **3,708,235** |

**Assets and liabilities measured at fair value as at December 31, 2017:**

| **Financial assets** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| ***Other financial assets*** | | | | |
| *Available-for-sale financial assets, of which:* | | | | |
| - Participations | - | - | 3,163,604 | 3,163,604 |
| **Total assets stated at fair value** | **-** | **-** | **3,163,604** | **3,163,604** |

**Financial instruments which were not presented at fair value within the balance sheet**

The table below summarizes the fair values of the financial assets and liabilities which are not presented at the fair value within the Bank's balance sheet. The purchase prices are used at the appraisal of the fair values of the assets and the sale prices are applied for liabilities.

(all amounts are expressed in RON, unless otherwise stated)

## 3. FINANCIAL RISK MANAGEMENT (continued)

### 3.6 The fair values of the financial assets and liabilities (continued)

**Assets and liabilities whose fair value is presented as at December 31, 2018:**

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash and balances with central banks | 235,209,032 | - | - | 235,209,032 |
| Placements with banks | - | 336,896,963 | - | 336,896,963 |
| Loans and advances to customers | - | - | 818,811,299 | 818,811,299 |
| Investments at amortised cost | 305,537,029 | - | - | 305,537,029 |
| Other financial assets | - | - | 1,659,794 | 1,659,794 |
| **Total financial assets** | **540,746,061** | **336,896,963** | **820,471,093** | **1,698,114,117** |

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Financial liabilities** | | | | |
| Bank deposits | - | 66,748,373 | - | 66,748,373 |
| Customers deposits | - | 1,633,693,432 | - | 1,633,693,432 |
| Subordinated loans | - | - | - | - |
| Other financial liabilities | - | - | 3,586,089 | 3,586,089 |
| **Total financial liabilities** | **-** | **1,700,441,804** | **3,586,089** | **1,704,027,894** |

**Assets and liabilities whose fair value is presented as at December 31, 2017:**

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash and balances with central banks | 511,127,495 | - | - | 511,127,495 |
| Placements with banks | - | 103,551,989 | - | 103,551,989 |
| Loans and advances to customers | - | - | 834,119,159 | 834,119,159 |
| Investments at amortised cost | 250,200,026 | - | - | 250,200,026 |
| Other financial assets | - | - | 1,627,311 | 1,627,311 |
| **Total financial assets** | **761,327,521** | **103,551,989** | **835,746,470** | **1,700,625,980** |

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Financial liabilities** | | | | |
| Bank deposits | - | 136,225,322 | - | 136,225,322 |
| Customers deposits | - | 1,491,816,241 | - | 1,491,816,241 |
| Subordinated loans | - | - | 186,435,649 | 186,435,649 |
| Other financial liabilities | - | - | 14,143,102 | 14,143,102 |
| **Total financial liabilities** | **-** | **1,628,041,563** | **200,578,751** | **1,828,620,314** |

## 3. FINANCIAL RISK MANAGEMENT (continued)

### 3.6 The fair values of the financial assets and liabilities (continued)

a. Receivables from credit institutions

The receivables from credit institutions include inter-bank placements and amounts pending settlement.

The fair value of the placements with variable interest and overnight deposits is represented by their carrying amount. The estimated fair value of the fixed interest deposits is based on the updated cash flows, using the interest rate on the monetary market for liabilities with a similar credit risk and maturity.

Taking into consideration that the products' prices are based on variable interest rates, there are no significant differences between the fair value and the carrying amount.

b. Receivables from customers

The loans and advances to customers are calculated net of the impairment provisions. The estimated fair value of the loans and advances represent the updated value of the future cash flows estimated to be received. The estimated cash flows are updated at the market rate in order to establish the fair value.

Taking into consideration that the products' prices are based on variable interest rates, there are no significant differences between the fair value and the carrying amount.

c. Deposits and contracted loans

The estimated fair values of the deposits which do not have a specified maturity, which include deposits with no interest, are represented by amount reimbursed on request. The estimated fair value of the deposits with fixed interest and of other loans without a market price is based on the updated cash flows using the interest rate for the new liabilities with similar maturity.

Taking into consideration that the products' prices are based on variable interest rates, there are no significant differences between the fair value and the carrying amount.

d. Investments at amortised cost

The fair value of investments at amortised cost is determined by using the price mentioned in bid-ask margin, the most representative being the fair value under the related circumstances, the price taken into consideration by the management being the last price of trading at the reporting date.

e. Financial assets measured at fair value through other comprehensive income – Participations

The equities held for sale include securities which are not traded on an active market. Due to the nature of the local capital markets, the market value for these securities cannot be obtained.

The assets are not rated and recent values regarding their trade price are not accessible for the public. The management does not intend to sell these assets within the near future. The bank has determined the fair value for them using the net asset method based on the published financial statements.

f. Financial assets and liabilities

The Bank's management considered that the fair value is the same with the carrying amount, taking into consideration that these financial assets and liabilities are estimated to be settled within a month or are without a fixed maturity, respectively they are on short term and the carrying amount is not significantly different from the fair value.

## 3. FINANCIAL RISK MANAGEMENT (continued)

### 3.6 The fair values of the financial assets and liabilities (continued)

g. Real estate

On the basis of the analysis of the changes on the real estate market as at December 31, 2018 (in comparison with the analysis performed on December 31, 2017) performed by evaluation team of the Bank and by the ANEVAR accredited evaluation teams, the Bank's management considered that the value of the lands and buildings as at December 31, 2018 and December 31, 2017 represents a correct appraisal of the fair value at the reporting date.

During the year ended December 31, 2018 there were no major changes in the periodic fair value statement within the valuation techniques regarding level 3.

### 3.7 Capital management

Starting January 1, 2014, the Bank calculates its own funds according to Regulation No. 575/2013 of the European Parliament and of the Council of June 26, 2013 on prudential requirements for credit institutions and investment firms and NBR Regulation no. 5 / 20.12.2013 on prudential requirements for credit institutions.

The prudential filters and the corresponding tax for 2017 are taken into account as 20% while for 1018, are no longer considered, and the unrealized gains resulting from the fair value measurement as 45%.

The National Bank of Romania, as regulation and supervisory authority of the banking system at national level, monitors the equity requirements of the Bank within the limits imposed by EU Regulation no. 575/2013 on prudential requirements for credit institutions and investment firms which provide:

- an equity ratio Tier 1 of 4.5 %;
- an equity ratio Tier 1 of 6%;
- an equity ratio of 8%.

As at December 31, 2018, the request for equity was as follows:

- a basic capital adequacy ratio Tier 1 of 8.69%;
- a capital adequacy ratio Tier 1 of 11.59%;
- a total capital adequacy ratio of 15.46%.

In terms of capital management, the Bank assesses capital adequacy for risks in accordance with the "Policy on the Internal Capital Adequacy Assessment", NBR regulations and CRD IV regulations package respectively.

The table below summarizes the capacity of the regulation capital and the indicators for the financial year ended on December 31, 2018 and December 31, 2017.

(all amounts are expressed in RON, unless otherwise stated)

## 3. FINANCIAL RISK MANAGEMENT (continued)

### 3.7 Capital management (continued)

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Capital level 1 | | |
| Total capital level 1 | 281,047,369 | 130,953,966 |
| Capital level 2 | | |
| Total capital level 2 | - | 183,998,915 |
| **Total capital** | **281,047,369** | **314,952,881** |
| Total credit risk exposure | 983,275,539 | 775,661,336 |
| Total risk weighted exposure | 1,074,422,482 | 896,830,161 |
| **Equity ratio level 1** | **26.16%** | **14.60%** |
| **Total equity ratio** | **26.16%** | **35.12%** |

On September 26, 2018 there was a capital increase through the conversion of subordinated loans in amount of EUR 30 million, according to the decision of the General Meeting of Shareholders of 28.08.2018, which secured adequate ratios of the bank's equity.

On December 31, 2018, the Bank registered both a level 1 equity ratio, and a total equity ratio of 26.16%, above the minimum level imposed by the National Bank of Romania, namely 12.565% and 19.335%.

## 4. BASIC ACCOUNTING ESTIMATES AND ASSUMPTIONS FOR ACCOUNTING POLICIES APPLICATION

The Bank makes certain estimates and adopts certain theories affecting the amounts where the assets and liabilities are registered during the next financial year. The estimates and assumptions are assessed constantly and are based on the historical experience and on other factors, including the expectations regarding the future events considered reasonably under the given circumstances.

a) Impairment losses on loans and advances

The bank reviews its loans portfolio on a monthly basis in order to evaluate the impairment. The impairment revision shall be done according to the policy regarding the evaluation of the risk exposures approved by the management. In order to establish whether a impairment loss must be registered within the profit or loss account, the Bank makes assumptions regarding the existence of some obvious information to indicate a calculable decrease of the future cash flows estimated from a loan portfolio before the time when the decrease could be associated to a certain loan from the respective portfolio. These evidences may include obvious information indicating an unfavourable change in the statute of the debtors within a group or economic conditions at economic national or local level to be connected with the impairment of the assets of the Bank.

In planning future cash flows the management uses estimates based on historical loss experience for assets related to similar credit risk characteristics and objective evidences of the impairment similar to the portfolio. The methodology and the assumptions used in the appraisal of both the value and the calendar of the future cash flows are reviewed constantly in order to reduce the differences between the estimates regarding the losses and the real losses registered.

(all amounts are expressed in RON, unless otherwise stated)

## 4. BASIC ACCOUNTING ESTIMATES AND ASSUMPTIONS FOR ACCOUNTING POLICIES APPLICATION (continued)

b) Future tax losses

According to the Romanian tax legislation, tax losses may be carried forward for a period of 7 years generating deferred tax when the related tax benefits, by future taxable profit, is probable. The deferred income tax assets related to the tax losses reported are recognised if the fiscal benefit by future taxable profits is possible. The future taxable profits and the benefits of the deferred tax credit probable in the future are based on a business plan prepared by the management. The business plan takes into consideration a positive and steady evolution of the income through an organic increase and assumption of medium risks, strict control of the costs and increased efficiency, as well as the maintenance of an adequate level of capitalisation and a firm position of the liquidity level.

The management of the Bank estimates that the Bank will register sufficient profit in the future period of time.

c) Financial assets at amortised cost

According to IFRS 9, the Bank classifies a part of its financial assets which are not derived instruments with fixed or estimable payments and fixed maturities as financial assets at amortised cost. If the Bank fails do this, except for some specific circumstances, such as the sale of an insignificant amount or close to maturity, it should reclassify the entire category as financial assets held for sale.

## 5. NET INTEREST INCOME

| | 2018 | 2017 |
|---|---|---|
| **Interest income** | | |
| Current accounts and deposits with banks | 2,999,671 | 1,492,250 |
| Loans and advances to customers | 46,655,974 | 44,456,762 |
| Investments at amortised cost | 6,487,801 | 4,376,625 |
| **Total** | **56,143,446** | **50,325,637** |
| **Interest expenses** | | |
| Current account, loans and deposits with banks | -3,176,459 | -4,728,670 |
| Customers deposits | -22,966,531 | -22,498,768 |
| Subordinated loans | -4,240,039 | -5,694,160 |
| **Total** | **-30,383,029** | **-32,921,598** |

**(all amounts are expressed in RON, unless otherwise stated)**

## 6. NET FEE INCOME

| | 2018 | 20167 |
|---|---|---|
| **Fee income** | | |
| Inter-bank transactions fees | 25,911 | 22,698 |
| Customer proceeds and payments fees | 987,706 | 909,598 |
| Customer credit fees | 21,760 | 241,201 |
| Fees from loan commitments and issued guarantee letters | 280,388 | 323,279 |
| Assistance and consultancy fees | 221,074 | 200,101 |
| Means of payment fees | 1,989,891 | 1,908,487 |
| Other fees | 22,527 | 25,616 |
| **Total** | **3,549,257** | **3,630,980** |

| | 2017 | 2016 |
|---|---|---|
| **Fees expenses** | | |
| Inter-bank transactions fees | -419,506 | -490,637 |
| Customer operation fees | -58,598 | -58,731 |
| Means of payment fees | -279,032 | -407,383 |
| Other fees | -56,989 | -57,530 |
| **Total** | **-814,125** | **-1,014,281** |

## 7. OTHER OPERATING INCOME

| | 2018 | 2017 |
|---|---|---|
| **Operating income from:** | | |
| Dividends | 27,396 | 25,263 |
| Sundry income from operating activities | 10,625,461 | - |
| Gains from the deposit reimbursement to the Bank of Cyprus (i) | 32,295,879 | 11,554,012 |
| Safe deposit boxes | 40,315 | 41,136 |
| Selling the repossessed assets | - | 2,361,412 |
| Net income from allowances for sundry operations | - | 357,698 |
| Net income from impairment allowances of repossessed assets | 4,849,136 | 7,476,662 |
| Net income from other provisions | - | - |
| Other income | 305,959 | 490,231 |
| **Total** | **48,144,146** | **22,306,414** |

*(i) The gains from the deposit reimbursement to the Bank of Cyprus, in amount of RON 32,295,879, registered in 2018, represents the discount received, agreed after signing the contract regarding the advance payment of a subordinated loan received from the Bank of Cyprus.*

*(ii) Against the background of the repayment, at a discount, of the subordinated loan in amount of EUR 10 million, the Bank registered in September 2018 an extraordinary income in amount of approximately EUR 7 million, which generated profit at consolidated level.*

(all amounts are expressed in RON, unless otherwise stated)

## 8. OTHER OPERATING EXPENSES

| | 2018 | 2017 |
|---|---|---|
| **Operating expenses, of which:** | | |
| Rents | -8,750,181 | -8,825,009 |
| Employees' benefits | -28,099,299 | -22,669,735 |
| Social contributions | -847,035 | -5,060,459 |
| Deposit Guarantee Fund Contributions | -772,628 | -3,422,812 |
| Other fees and taxes | -1,818,207 | -1,712,300 |
| Supplies | -957,766 | -999,288 |
| Maintenance and repairs | -5,947,291 | -5,255,240 |
| Utilities | -1,408,154 | -1,282,716 |
| Post office and telecommunications | -2,943,447 | -2,992,320 |
| Collaborators and brokerage | -567,622 | -770,247 |
| Dislocations, secondments, transfers | -542,494 | -246,716 |
| Other services performed by third parties | -7,036,133 | -6,856,465 |
| Protocol | -265,705 | -300,090 |
| Publicity and advertising | -183,648 | -231,276 |
| Net loss on scrapping of fixed assets | -316,427 | -20,876 |
| Deregistration of the sold repossessed assets (i) | -2,770,430 | - |
| Amortization/depreciation of tangible and intangible assets | -3,178,985 | -4,250,097 |
| Net expenses with adjustments for receivables from sundry operations | -426,878 | - |
| Net expenses with other provisions | -109,716 | -326,279 |
| Other operating expenses | -518,682 | -631,658 |
| **Total** | **-67,460,727** | **-65,953,583** |

Line "Other third party services" also includes the taxes paid by the Bank to the statutory auditor for the audit of the statutory financial statements for 2018: RON 349,254 (2017: RON 349,254). No additional non-audit services were provided by the audit firm.

*(i) In 2018 Banca sold properties held further to the enforcement of non-performing loans in amount of RON 36,019,762 (2017: RON 43,775,265), which were registered at a book value of RON 38,790,193 (2017: RON 41,413,852), incurring a loss of RON 2,770,430 (2017: profit of RON 2,361,412).*

## 9. INCOME TAX EXPENSE

The income tax before tax registered by the Bank differs from the theoretical value which should result as a consequence of the use of the basic tax rate:

| | 2017 | 2018 |
|---|---|---|
| **Profit before tax** | **10,501,233** | **5,706,618** |
| Theoretical income tax expense/(income) calculated at the provided rate of 16% | -1,680,197 | -913,059 |
| **The tax effect of:** | | |
| Non-deductible expenses | -1,937,130 | -1,441,967 |
| Assimilated income items | -1,077,946 | - |
| Other deductions | 592,647 | 725,683 |
| Non-taxable incomes elements | 1,657,956 | 1,689,670 |
| Use of reported and unrecognized tax loss | 2,444,670 | -60,327 |

(all amounts are expressed in RON, unless otherwise stated)

## 9. INCOME TAX EXPENSE (continued)

The current tax is calculated by applying a 16% rate (2017: 16%). The deferred income tax is calculated for all the temporary differences based on the accrual principle, using a tax income rate of 16% (2017: 16%).

The accounting profit before tax registered by the Bank in 2018 in amount of RON 10,501,233 was adjusted for the calculation of the tax loss by RON 4,777,957, resulting from non-taxable income, assimilated income items, non-deductible expenses and other deductions. The tax profit generated by the Bank in 2018 in amount of RON 15,279,189 reduced the tax losses carried forward from previous periods in amount of RON 234,419,793 were added.

Thus, as at December 31, 2018, the Bank reported a tax loss carried forward of RON 219,140,604 which, according to the fiscal legislation, can be used within 7 years from its realisation. To this tax loss corresponds a deferred income tax as receivable in amount of RON 35,062,497. On the basis of the Bank's prospects relating future income, the Bank recognised within the balance sheet a receivable with the deferred tax on December 31, 2018 in amount of RON 10,948,417 (2017: RON 10,948,417).

The Bank has a potential unrecognized deferred tax asset not recognized in the statement of financial position from unused tax losses carried forward in amount of RON 24,114,080 (2017: RON 26,814,635). The tax losses carried forward expire as follows:

| **The tax losses carried forward expire on:** | **2018** | **2017** |
|---|---|---|
| December 31, 2018 | - | 11,514,348 |
| December 31, 2019 | 9,092,075 | 12,856,916 |
| December 31, 2020 | 93,284,639 | 93,284,639 |
| December 31, 2021 | 116,763,890 | 116,763,890 |
| **Total** | **219,140,604** | **234,419,793** |

The receivables, respectively the debts regarding the deferred tax are attributable to the following items:

| | **December 31, 2017** | **Tax recognised in profit or loss expense/ (loan)** | **Tax recognised in other comprehensive income** | **December 31, 2018** |
|---|---|---|---|---|
| Tax loss carried forward | 10,948,417 | - | - | 10,948,417 |
| Tax effect of the differences caused by the change of the fair value of the financial assets at fair value through other comprehensive income | - | - | - | - |
| **Net tax effect of the temporary non-deductible/ (taxable) differences** | **10,948,417** | - | - | **10,948,417** |

Deferred tax assets are recognised for the tax loss carried forward if it is probable to realise the related tax benefit.

(all amounts are expressed in RON, unless otherwise stated)

## 10. CASH AND BALANCES WITH CENTRAL BANKS

| | 2018 | 2017 |
|---|---|---|
| Petty cash | 35.068.076 | 32.261.843 |
| Current accounts with NBR | 200.140.956 | 478.865.652 |
| - in RON | 122.695.033 | 137.686.751 |
| - in EUR | 77.445.923 | 341.178.901 |
| **Total** | **235.209.032** | **511.127.495** |

The current account must fulfil the mandatory requirements regarding the minimum reserves imposed by the National Bank of Romania. This reserve represents a medium minimum deposit on a month period, based on the resources raised in the previous month. The balances with the Central Bank at the reporting date fulfil these requirements.

In 2018, the interest rates varied between 0.09% and 0.23% (2017: 0.08% - 0.10%) for reserves held in RON, and were set at 0.02% for reserves held in EUR (2017: 0.02% – 0.05%).

All these balances have been included in cash and cash equivalents (Note 24).

## 11. PLACEMENTS WITH BANKS

| | 2018 | 2017 |
|---|---|---|
| Correspondent accounts (Nostro) | 3,143,517 | 6,737,611 |
| Sight placements | 36,314,389 | 5,837,591 |
| Maturity placements | 297,617,539 | 90,976,787 |
| Expected loss | -178,482 | - |
| **Total** | **336,896,963** | **103,551,989** |

During 2018, the interest rates with the USD placements varied between 0.70% and 3.80% (2017: 0.65% and 1.48%) and the ones with the EUR placements between 0.49% and 1.30% (2017: 0% and 0.30%). The interest rates with the RON placements varied between 0.75% and 4.35% (2017: 0.25% and 2.50%).

In 2017, there were no registered provisions as they were calculated as of January 1, 2018 since IFRS 9 became effective.

All these balances have been included in cash and cash equivalents because they have a contractual maturity under 3 months (Note 24).

## 12. INVESTMENTS AT AMORTISED COST

| | 2018 | 2017 |
|---|---|---|
| Bonds issued by the Romanian Government | | |
| - in RON | 279,395,489 | 228,199,933 |
| - in EUR | 23,729,068 | 24,053,922 |
| - in USD | 4,061,760 | - |
| Total | **307,186,317** | **252,253,855** |
| Bonds issued by the Government of Romania - gross | 307,554,720 | 252,253,855 |
| Expected loss | -368,403 | - |
| **Total** | **307,186,317** | **252,253,855** |

**(all amounts are expressed in RON, unless otherwise stated)**

## 12. INVESTMENTS AT AMORTISED COST (continued)

The interest rate for the bond portfolio issued by the Romanian Government in RON fluctuated between 2.25% and 5.75%, (2017: 2.25% and 6.75%), and for the EUR bond portfolio 4.875% (2017: 4.875%) and for USD 6.75%. In 2017, there was no bond portfolio in USD.

The movements in the investments at amortised cost are presented below:

| | Total |
|---|---|
| **Balance on January 1, 2018** | **252,253,855** |
| Inputs (purchases) | 140,807,382 |
| Outputs (matured) | -80,000,000 |
| Collected interest | -12,018,001 |
| Amortisation discount / premium | 6,487,801 |
| Exchange rate differences | 23,683 |
| **Balance on December 31, 2018** | **307,554,720** |
| **Balance on January 1, 2017** | **300,697,693** |
| Inputs (purchases) | 73,854,066 |
| Outputs (sold or matured) | -115,000,000 |
| Collected interest | -12,310,802 |
| Amortisation discount / premium | 4,376,625 |
| Exchange rate differences | 636,273 |
| **Balance on December 31, 2017** | **252,253,855** |

Movement of the provision related to amortized cost investments:

| | Total |
|---|---|
| **Balance on December 31, 2017** | - |
| Effect of changes in accounting policies | -295,593 |
| **Balance on January 1, 2018** | **-295,593** |
| Inputs | 107,564 |
| Outputs | -180,374 |
| FX differences | - |
| **Balance on December 31, 2018** | **-368,403** |

(all amounts are expressed in RON, unless otherwise stated)

## 13. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

| | 2018 | 2017 |
|---|---|---|
| Participations | | |
| - in RON | 31,432 | 33,461 |
| - in EUR (i) | 546,003 | 545,511 |
| - in USD (i) | 3,130,800 | 2,584,632 |
| Total | **3,708,235** | **3,163,604** |

(i) As Visa Europe Limited ("Visa Europe") and Visa Inc. announced on November 2nd, 2015, Visa Inc agreed to purchase Visa Europe, under the condition of receiving the approval within the regulation framework. Taking into account that the Bank is a principal member of Visa Europe, the Bank is part of this transaction.

In 2016, the amount of EUR 1,367,592.75 was confirmed and paid in cash, representing the completion of the cash transaction, including the sale of the EUR 10 share of Visa Europe.

In addition, the bank received 496 preferential shares Series C in Visa Inc. and cash pro rata with the 0.0105373616% holding to receive after the third anniversary valued at EUR 117,070.

The movements in the financial assets at fair value through other comprehensive income are presented as follows:

| | Total |
|---|---|
| **Balance on January 1, 2018** | **3,163,604** |
| Gain/(loss) from the alterations of the fair value | 544,631 |
| **Balance on December 31, 2018** | **3,708,235** |
| **Balance on January 1, 2017** | **2,518,848** |
| Gains from changes in fair value | 644,756 |
| **Balance on December 31, 2017** | **3,163,604** |

**(all amounts are expressed in RON, unless otherwise stated)**

## 14. INTANGIBLE ASSETS

| | IT software |
|---|---|
| **Net carrying amount as at January 1, 2018** | **1,416,088** |
| Inputs | 1,931,858 |
| Transfers | - |
| Outputs | -1,826,490 |
| Amortization expense | -971,009 |
| Accumulated amortization for outputs | 1,826,490 |
| **Net carrying amount as at December 31, 2018** | **2,376,937** |
| **December 31, 2018** | |
| Cost | 8,051,268 |
| Accumulated amortization | -5,674,331 |
| **Net carrying amount** | **2,376,937** |
| **Net carrying amount as at January 1, 2017** | **2,269,608** |
| Inputs | 409,095 |
| Transfers | - |
| Outputs | - |
| Amortization expense | -1,262,615 |
| Accumulated amortization for outputs | - |
| **Net carrying amount as at December 31, 2017** | **1,416,088** |
| **December 31, 2017** | |
| Cost | 7,945,899 |
| Accumulated amortization | -6,529,811 |
| **Net carrying amount** | **1,416,088** |

(all amounts are expressed in RON, unless otherwise stated)

## 15. TANGIBLE ASSETS

| December 31, 2018 | Lands and buildings | Design | Furniture and equipment | Assets in progress | Total |
|---|---|---|---|---|---|
| **Net carrying amount on January 1, 2018** | **2,194,720** | **2,080,172** | **4,547,459** | **-** | **8,822,351** |
| Inputs | - | - | 911,176 | 330,123 | 1,241,299 |
| Transfers | - | - | 327,383 | -330,123 | -2,740 |
| Outputs | - | -1,136,305 | -643,827 | - | -1,780,132 |
| Amortization expense | -44,140 | -847,542 | -1,316,295 | - | -2,207,977 |
| Revaluation | - | | | - | - |
| Accumulated amortization for outputs and impairment adjustments | - | 858,305 | 605,402 | - | 1,463,706 |
| **Net carrying amount as at December 31, 2018** | **2,150,580** | **954,630** | **4,431,297** | **-** | **7,536,507** |
| Cost | 2,194,720 | 15,300,455 | 23,917,697 | - | 41,412,872 |
| Accumulated amortization | -44,140 | -14,345,825 | -19,486,399 | - | -33,876,364 |
| **Net carrying amount as at December 31, 2018** | **2,150,580** | **954,630** | **4,431,298** | **-** | **7,536,508** |
| **December 31, 2017** | | | | | |
| **Net carrying amount on January 1, 2017** | **2,108,186** | **3,470,127** | **6,078,146** | **21,869** | **11,678,328** |
| Inputs | - | - | 23,605 | 11,720 | 35,325 |
| Transfers | - | - | 33,589 | -33,569 | - |
| Outputs | - | - | 28,539 | - | -28,539 |
| Amortization expense | -38,186 | -1,389,955 | -1,559,342 | - | -2,987,483 |
| Revaluation | 124,720 | - | | - | 124,720 |
| Accumulated amortization for outputs and impairment adjustments | - | - | - | - | - |
| **Net carrying amount as at December 31, 2017** | **2,194,720** | **2,080,172** | **4,547,459** | **-** | **8,822,351** |
| Cost | 2,194,720 | 16,436,761 | 23,322,964 | - | 41,954,445 |
| Accumulated amortization | - | (14,356,589) | (18,775,505) | - | (33,132,094) |
| **Net carrying amount as at December 31, 2017** | **2,194,720** | **2,080,172** | **4,547,459** | **-** | **8,822,351** |

(all amounts are expressed in RON, unless otherwise stated)

## 16. OTHER ASSETS

| | 2018 | 2017 |
|---|---|---|
| **Other financial assets** | | |
| Values to be recovered | 28,458 | 318,915 |
| Various debtors - net | 1,292,110 | 975,255 |
| Incomes to be received - net | 339,226 | 333,141 |
| **Total** | **1,659,794** | **1,627,311** |
| **Other non-financial assets** | | |
| Inter-bank settlements | 560,958 | 900,212 |
| Advances to personnel | 1,501 | 863 |
| Deductible/recoverable VAT | 954 | 448,989 |
| Other receivables regarding the state budget | 771,264 | 434,287 |
| Repossessed assets | 265,451,615 | 241,592,487 |
| Expenses registered in advance | 3,333,208 | 2,801,434 |
| **Total** | **270,119,500** | **246,178,272** |

| **Nature of the assets** | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Various debtors - gross | 1,730,421 | 1,021,301 |
| Provision | -438,311 | -46,046 |
| **Net value** | **1,292,110** | **975,255** |
| Gross incomes to be received | 432,701 | 408,135 |
| Provision | -93,475 | -74,995 |
| **Net value** | **339,226** | **333,141** |
| Gross repossessed assets | 346,060,341 | 327,050,349 |
| Provision for assets impairment | -80,608,726 | -85,457,862 |
| **Net value** | **265,451,615** | **241,592,487** |

Repossessed assets are recognized as stocks of assets as per IAS 2, held for sale in the course of business. In the sale process, the carrying amount of the expense is recognized in profit or loss as the related revenues from sale are recognized. Repossessed assets are stated annually at the lowest of cost and net realizable value. According to the NBR instructions, the revalued amount of repossessed assets is checked by an independent valuer indicated by the NBR.

The movement in the portfolio of repossessed assets was as follows:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Inflows (gross value) | 57,800,184 | 11,225,316 |
| Ourflows (gross value) | 38,790,193 | 41,413,852 |
| Price received | 36,019,762 | 43,775,265 |

## 16. OTHER ASSETS (continued)

The movement of the provision for various debtors is as follows:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Opening balance | 46,046 | 1,285,009 |
| Increases | 392,265 | - |
| Decreases | - | -1,238,963 |
| **Closing balance** | **438,311** | **46,046** |

The movement of the provision for income to be received is as follows:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Opening balance | 74,995 | 290,854 |
| Increases | 18,480 | - |
| Decreases | - | -215,859 |
| **Closing balance** | **93,475** | **74,995** |

The movement of the provision for repossessed assets impairment representing assets achieved as a consequence of foreclosure of receivables is as follows:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Opening balance | 85,457,862 | 92,934,524 |
| Increases | 2,645,552 | 1,093,248 |
| Decreases | -7,494,688 | -8,569,910 |
| **Closing balance** | **80,608,726** | **85,457,862** |

## 17. DEPOSITS FROM BANKS

| | 2018 | 2017 |
|---|---|---|
| Correspondent accounts (Loro) | 29,054 | 525,689 |
| Sight deposits | 15,001,146 | |
| Maturity deposits | 51,718,173 | - |
| Collateral deposits | - | 135,699,633 |
| **Total** | **66,748,373** | **136,225,322** |

In 2018, for inter-banking deposits drawn, expressed in RON, interest rates varied between 1.35% and 3.52%. In 2017, there are no deposits from banks in RON. For inter-bank deposits denominated in EUR, the interest rates varied between 0% and 4.25% (2017: 1.38% and 4.25%).

## 18. CUSTOMERS' DEPOSITS

| | 2018 | 2017 |
|---|---|---|
| Current accounts | 221,554,504 | 142,405,326 |
| Sight deposits | 10,713,957 | 10,235,429 |
| Maturity deposits | 1,381,812,520 | 1,326,633,958 |
| Collateral deposits | 19,612,451 | 12,541,528 |
| **Total** | **1,633,693,432** | **1,491,816,241** |

The interest rates regarding customers deposits in 2018 varied between 0.1% and 4% (2017: between 0.1% and 4%) on deposits denominated in RON and between 0% and 4% (2017: between 0% and 4%) on deposits denominated in EUR.

## 19. SUBORDINATED LOANS

| | 2018 | 2017 |
|---|---|---|
| Subordinated loan for an indefinite term | - | 186,435,649 |
| **Total** | **-** | **186,435,649** |

The Bank contracted a subordinated loan of EUR 10.000.000 in 2006 from Marfin Egnatia Bank SA. The loan has a variable interest rate (Euribor at 3 months + 0.6%) quarterly payable and it has an indefinite maturity. The subordinated loan contract does not comprises the financial indicators to be fulfilled by the Bank.

The subordinated loan has been transferred starting with March 29th, 2013 from Marfin Egnatia Bank SA towards Bank of Cyprus (Note 2.1 b).

In 2014, the Bank has made a conversion of the fixed-term deposits from Bank of Cyprus into two subordinated loans for an indefinite period, of EUR 20,000,000 in September 2014 and EUR 10,000,000 in December 2014 at fixed interest (2% for the first year, 3% for the second year, 4% for the fourth 4.25% for the fifth year) and variable interest starting with the sixth year (Euribor at 3 months + 4%), quarterly payable.

As at August 31, 2018, the amounts drawn from credit institutions consisted of subordinated loans (EUR 10 million from Bank of Cyprus Public Company; EUR 30 million from Barniveld Enterprises Limited, priorly purchased from Bank of Cyprus Public Company).

On September 26, 2018, Marfin Bank (Romania) SA increased its share capital by converting the subordinated loans in amount of EUR 30 million from Barniveld Enterprises Limited, and the subordinated loan from Bank of Cyprus Public Company was repaid at a discount of 70%.

(all amounts are expressed in RON, unless otherwise stated)

## 20. OTHER LIABILITIES

| | 2018 | 2017 |
|---|---|---|
| **Other financial liabilities** | | |
| Other due amounts | 1,032,199 | 13,295,560 |
| Sundry creditors | 2,170,936 | 637,940 |
| Expenses payable | 382,954 | 209,602 |
| **Total** | **3,586,089** | **14,143,102** |
| **Other non-financial liabilities** | | |
| Collected/payable VAT | 33,534 | 61,039 |
| Salary withholdings due to third parties | - | 473 |
| Other payable taxes and social benefits | 1,543,915 | 1,690,870 |
| Income registered in advance | 975,728 | 628,531 |
| Provisions for the employees' benefits | 1,702,687 | 1,635,904 |
| Other regulatory accounts and differences | 18,338 | 186,297 |
| **Total** | **4,274,202** | **4,203,114** |

## 21. PROVISIONS FOR RISKS AND CHARGES

| | 2018 | 2017 |
|---|---|---|
| Provisions for loan commitments, financial guarantees and other given commitments | 540,264 | 137,350 |
| Litigation provisions | 28,776 | 200,306 |
| **Total** | **569,040** | **337,656** |

The value of the risk provisions takes into account the best estimate of the necessary amount for the settlement of the obligation, taking into consideration the associated risks.

Once the Company adopted IFRS 9 as of January 1, 2018, it calculated additional provisions according to the methodology in force, as follows:

Provisions for lending commitments – RON 182,630
Provisions for financial guarantees – RON 143,181

The litigation provisions are recognised for all the situations where the following conditions are met: there is a legal or constructive obligation as a consequence of a past event, the possibility that an outflow incorporating economic benefits necessary for the settlement of the obligation is more likely than the possibility of not being necessary and a reliable estimate may be done regarding the value of the obligation.
The changes in the provisions for risks and charges are presented below:

| | 2018 | 2017 |
|---|---|---|
| **Balance at the beginning of the year** | **337,657** | **214,739** |
| Increases | 1,161,145 | 313,826 |
| Decreases | -1,118,212 | -195,121 |
| FX differences | 188,450 | 4,213 |
| **Balance at the end of the year** | **569,040** | **337,657** |

Litigation provisions are due to the elimination of risks regarding the litigation on abusive clauses (risks correlated with increase of the interest rates and charging commissions for granting, managing and restructuring).

**(all amounts are expressed in RON, unless otherwise stated)**

## 22. SHARE CAPITAL

| | 2018 | 2017 |
|---|---|---|
| Shared capital registered with the Trade Registry | 421,143,290 | 281,328,290 |
| Adjusting the share capital with inflation (IAS 29) | 36,171,458 | 36,171,458 |
| **Share capital according IFRS** | **457,314,748** | **317,499,748** |

| **Shareholder** | 2018 (%) | 2017 (%) |
|---|---|---|
| Barnveld Enterprises Limited | 99.69 | - |
| Cyprus Popular Bank | - | 99.54 |
| Shareholders - legal entities | 0.19 | |
| Shareholders - natural persons | 0.12 | 0.46 |
| **Total** | **100.00** | **100.00** |

The Bank's share capital consists of 4,211,432,900 (2017: 2,813,282,900) ordinary shares allocated and paid in full in the amount of RON 0.1 each share (2017: RON 0.1 each). Every share represents a vote.

## 23. RESERVES

| | 2018 | 2017 |
|---|---|---|
| Legal reserve | 6,872,948 | 6,347,886 |
| General reserve for banking risks | 7,568,063 | 7,568,063 |
| Reserve from the re-evaluation of the assets | 627,575 | 627,575 |
| Differences from changes in the fair value of financial assets at fair value through other comprehensive income – credit office | 25,050 | 27,079 |
| Differences from the alterations of the fair value of financial assets at fair value through other comprehensive income - Visa | 1,215,985 | 803,712 |
| **Total** | **16,309,621** | **15,374,317** |

The changes in reserves are detailed as follows for each reserve category:

| **Legal reserve** | 2018 | 2017 |
|---|---|---|
| **Balance at the beginning of the year** | **6,347,886** | **6,062,555** |
| Transfer as profit allocation | 525,062 | 285,331 |
| **Balance at the end of the year** | **6,872,948** | **6,347,886** |

(all amounts are expressed in RON, unless otherwise stated)

## 23. RESERVES (continued)

| **General reserve for banking risks** | **2018** | **2017** |
|---|---|---|
| Balance at the beginning of the year | 7,568,063 | 7,568,063 |
| **Balance at the end of the year** | **7,568,063** | **7,568,063** |

| **Reserve from the reassessment of the assets** | **2018** | **2017** |
|---|---|---|
| **Balance at the beginning of the year** | **627,575** | **536,702** |
| Increase of the fair value of fixed assets (land and building) | - | 90,873 |
| **Balance at the end of the year** | **627,575** | **627,575** |

## 24. CASH AND CASH EQUIVALENTS

| | **2018** | **2017** |
|---|---|---|
| Cash and balances with the Central Banks (Note 10) | 235,209,032 | 511,127,495 |
| Placements with banks (Note 11) | 336,896,963 | 103,551,989 |
| **Total** | **572,105,995** | **614,679,484** |

## 25. OTHER ASSETS

**Differences from changes of the fair value of financial assets at fair value through other comprehensive income**

| | **2018** | **2017** |
|---|---|---|
| **Balance at the beginning of the year** | **830,792** | **24,552** |
| Registering the differences regarding the fair value | 410,242 | 806,240 |
| **Balance at the end of the year** | **1,241,034** | **830,792** |

According the Romanian legislation regarding the bank institutions and operations, the Bank must distribute the profit as dividends or to perform a transfer in the reported result (reserves) based on the financial statements concluded in accordance with Order 27/2010. The transferred amounts in the reserve accounts must be used for the purposes defined at the time of the transfer.

According the Romanian bank legislation, the Bank has the obligation to create a legal reserve of 5% of the gross income, until the total reserve reaches 20% out of the issued and fully paid share capital.

According the legislation regulated by the National Bank of Romania, in the past the Bank had the obligation to create a general reserve for banking risk, out of the gross income. This reserve may be used to cover losses from loans. At present, the reserve is not used until a clarification is issued regarding this regulation by the National Bank of Romania.

The amounts transferred in reserves must be used for the purpose defined at the time of the transfer. According to the national legislation, these reserves cannot be used for other purposes.

**(all amounts are expressed in RON, unless otherwise stated)**

## 25. OTHER ASSETS (continued)

After reducing taxes and eliminating statutory and general reserves as previously presented, the remaining balance out of the net income may be distributed to the shareholders. Only the dividends from the current statutory income may be declared.

The legal reserves may be distributed with the approval of the Annual General Meeting of Shareholders, but they shall be subject to 16% taxation at the distribution time.

## 26. RELATED PARTY TRANSACTIONS

The nature of the relationship with related parties for those related parties with which the Bank concluded significant transactions or registered significant balances as at December 31 is herein presented.

Barniveld Enterprises Limited is the parent bank. The related parties presented below include mainly the local management.

The main related parties of the Group are as follows:

| Name | Participation (%) | Country |
|---|---|---|
| Ioannis Vardinogiannis – natural person | 100 | Greece |
| Gem Force Investments Limited | 100 | Greece |
| Barniveld Enterprises Limited | 99.69 | Cyprus |

| 2018 | Management | Key positions | Parent bank | Other entities from the Group |
|---|---|---|---|---|
| **Assets** | | | | |
| Current accounts with banks | - | - | - | 80,648 |
| Placements with banks | | | | 160,352,638 |
| Customers' loans | 299 | 2.280.731 | - | 11,537,117 |
| **Total assets** | **299** | **2.280.731** | **-** | **171,970,403** |
| **Liabilities** | | | | |
| Current accounts with banks | - | - | - | 29,054 |
| Deposits of banks | - | - | - | - |
| Customers' deposits | 1,131,479 | 2,602,780 | | 7,662,070 |
| **Total liabilities** | **1,131,479** | **2,602,780** | **-** | **7,691,123** |

MBR was a member of Laiki Group. During the analyzed period, the Laiki Group was under liquidation, under the control of a designated receiver.

In 2018, the majority shareholder of the Bank became Barniveld Enterprises Limited with 58 Arch. Makarios III, Iris Tower, 8th floor, 1075, Nicosia, Cyprus.

Thus, by Letter no. 18906 / 16.08.2017, Barniveld Enterprises Limited notified the National Bank of Romania its intention to become a shareholder of Marfin Bank (Romania) SA, with a 99.535052% shareholding in the bank, based on the provisions of Article 25 paragraph 3 of Government Emergency Order no. 99/2006 on credit institutions and capital adequacy, as amended and supplemented by Law no. 227/2007, as subsequently amended and supplemented.

(all amounts are expressed in RON, unless otherwise stated)

## 26. RELATED PARTIES TRANSACTIONS (continued)

Subsequently, by Letter no. FG / 235 / 12.03.2018, the Central Bank informed the purchaser's representative that it does not oppose Barniveld Enterprises Limited's intention to hold a direct participation of 99.535052% in the share capital of Marfin Bank (Romania) SA.

Subsequently, by Letter no. 393 / 26.07.2018, the credit institution submitted to the National Bank of Romania - the Supervision Department the documents for registration at the Trade Registry of the new shareholder of Marfin Bank Romania SA, namely Barniveld Enterprises Limited.

| 2017 | Management | Key positions | Parent bank | Other entities from the Group |
|---|---|---|---|---|
| **Assets** | | | | |
| Current accounts with banks | - | - | - | 2,312,202 |
| Placements with banks | - | - | - | - |
| Customers' loans | 7,320 | 2,829,823 | - | 159,448,824 |
| **Total assets** | **7,320** | **2,829,823** | **-** | **161,761,026** |
| **Liabilities** | | | | |
| Current accounts with banks | - | - | - | 525,689 |
| Deposits of banks | - | - | - | 51,808,156 |
| Customers' deposits | 1,015,503 | 2,311,960 | - | 2,905,083 |
| **Total liabilities** | **1,015,503** | **2,311,960** | **-** | **55,238,928** |

In 2017, MBR was member of Laiki Group, which was under liquidation, under the control of a designated receiver. The Laiki Group had its structure: Marfin Leasing Romania SA, International Bank of Greece and Axia Nova Property Holdings SRL.

(all amounts are expressed in RON, unless otherwise stated)

## 26. RELATED PARTIES TRANSACTIONS (continued)

| | 2018 | | | | 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | Management | Key positions | Parent bank | Other entities from the Group | Management | Key positions | Parent bank | Other entities from the Group |
| **Income** | | | | | | | | |
| Bank placement interest | - | - | - | 254,998 | - | - | - | 138,186 |
| Customers' loans interest | - | 78,850 | - | 531,239 | - | 35,233 | - | 2,457,875 |
| **Total income** | **-** | **78,850** | **-** | **786,237** | **-** | **35,233** | **-** | **2,596,061** |
| **Expenses** | | | | | | | | |
| Bank deposit interest | - | - | - | 857,676 | - | - | - | 2,348,135 |
| Customer deposit interest | 11,762 | 55,113 | - | 66,684 | 21,773 | 102,393 | - | 9,095 |
| Expenses with salaries | 1,296,203 | 3,280,533 | - | - | 1,750,031 | 2,828,944 | - | - |
| **Total expenses** | **1,307,965** | **3,335,646** | **-** | **924,360** | **1,771,804** | **2,931,337** | **-** | **2,357,230** |

In 2018, the Bank paid salaries to management in amount of RON 1,296,203 (December 31, 2017: RON 1,750,031).

## 27. COMMITMENTS AND CONTINGENT LIABILITIES

### Taxation

The Romanian tax system suffered multiple alterations over the last years and now is in the phase of adjusting to the European Union jurisdiction. Therefore, there are still different interpretations of the tax legislation. In certain situations, the tax authorities may treat differently certain aspects, performing the calculation of some additional fees and taxes and of the related interest and delay penalties (at the present time the penalties established according the delay period, plus 0.01% per day default interest). In Romania, the fiscal year remains opened for tax verification for 5 years. The Bank's management considers that the tax liabilities included in these financial statements are adequate.

### Transfer price

The Romanian tax legislation includes the "market value" principle, according to which the trades between the related partied must be performed at the market value. The local contributors performing transactions with the related parties must draw up and to put at the disposal of the Romanian tax authorities, at their written request, the documentation file of the transfer prices. Failure to present the documentation file or the incomplete presentation of such may cause penalties for noncompliance; additional to the content of the documentation file of the transfer prices, the tax authorities may interpret the transactions and circumstances different from the management's interpretation, therefore, they may impose additional tax liabilities resulted out of the adjustment of the transfer prices. The Bank's management considers that the Bank will not have any losses if a tax control should occur for the assessment of the transfer prices. Nevertheless, the impact of the different interpretations of the tax authorities may not be reliably appraised. It can be significant for the Bank's financial position and/or operations.

### Tax risk

The Romanian tax system is in the phase of consolidation and adjustment with the European Union legislation. However, there are still different interpretations of the tax legislation. In certain situations, the tax authorities may treat differently certain aspects, performing the calculation of some additional fees and taxes and of the related interest and delay penalties. In Romania, the fiscal year remains opened for tax verification for 5 years. The Bank's management considers that the tax liabilities included in these financial statements are adequate and they are not aware of any circumstances which may cause significant liability in this respect.

### Loan commitments

The main purpose of these instruments is to ensure the availability of the funds to respond to the customers' requirements.

The guarantees and standby letters of credit, which constitute an irrevocable assurance that the Bank will make the payments if a customer is not able to fulfill his liabilities towards a third party, are exposed to the same loan risk as the loans.

The commercial and documentary letters of credit representing written commitments of the Bank for the benefit of a customer and authorising a third party to draw instalments on Bank within the limit of a stipulated amount and within specific terms and conditions are guaranteed by the related assets delivery presenting accordingly a considerable lower risk than the direct loans.

The loan extension commitments represent unused segments loan extension authorisations under the form of loans, guarantee letters or letters of credit. Regarding the credit risk related to the expansion commitments of the loan, the Bank is potentially exposed to a loss equal with the total unused commitments.

Nevertheless, probable volume of the loss, although difficult to be quantified is significantly lower than the total unused commitments, since the majority of the expansion commitments of the loan are conditioned by the observance by the customers of certain specific credit standards. The Bank monitors the credit maturities because, in general, the long term commitments presents a higher degree of credit risk than the short term credit commitments.

(all amounts are expressed in RON, unless otherwise stated)

## 27. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

**Loan commitments (continued)**

The outstanding amounts are as follows:

| | 2018 | 2017 |
|---|---|---|
| Commitments in favour of credit institutions | - | 94,672 |
| Commitments in favour of the customers (irrevocable unused credit facilities) | 67,105,694 | 9,242,040 |
| Guarantees for customers | 27,646,840 | 16,316,956 |
| **Total** | **94,752,534** | **25,653,668** |

**Performance guarantees**

Details regarding the letters of guarantee on December 31, 2018 and December 31, 2017 are presented below:

| | 2018 | 2017 |
|---|---|---|
| Letters of financial guarantee | 12,631,591 | 5,105,297 |
| Performance bond letters | 15,015,249 | 11,211,659 |
| **Total** | **27,646,840** | **16,316,956** |

In 2018 and 2017, the Bank had no pledged securities.

In the lease contracts for branches, where the Bank is the lessee, the future minimum lease payments based on firm commitments under operating lease (rents) are as follows:

| | 2018 | 2017 |
|---|---|---|
| Less than 1 year | 8,250,804 | 7,540,229 |
| Between 1 and 5 years | 15,602,684 | 17,808,766 |
| Over 5 years | 6,640,932 | 8,814,174 |
| **Total** | **30,494,420** | **34,163,169** |

## 28. SUBSEQUENT EVENTS

Until the date of approval of the financial statements, there were no events subsequent to the balance sheet date.

MARFIN BANK
(ROMANIA) S.A.

## REPORT OF THE BOARD OF ADMINISTRATION

**Upon the activity carried out**
**during the Financial Year 2018**

Marfin Bank (Romania) S.A., former Egnatia Bank (Romania) S.A., former BNP-Dresdner Bank (Romania) S.A., Romanian legal entity, having the headquarters in 90-92 Emanoil Porumbaru Street, Bucharest, district 1, Romania, registered with the Trade Registry under no. J40/4436/1998, having the unique registration code RO 10556861, share capital RON 421,143,290, operating in accordance with Romanian Banking Law and based on National Bank of Romania authorization serial C number 000001/17.07.1998, registered at the National Bank of Romania Registry no. RB-P-JR-40-044 dated 18.02.1999.

**Budget - 2018**

In line with the revised Budget, the following levels of principal elements have been estimated for 2017:

- Total assets - EUR 448 mil;
- Customer loans (gross value) - EUR 260 mil;
- Held to maturity instruments – EUR 90 mil;
- Customer deposits – EUR 380 mil.

**Profit & Loss account:**

- Interest income - EUR 7.96 mil;
- Commission income - EUR 0.76 mil;
- FX earning - EUR 0.53 mil;
- Operational costs - EUR 15.20 mil.

The Bank focuses on the following objectives:

- the limitation of losses due to the depreciation of the debtor's quality by monitoring the loan portfolio, which is a permanent process that includes two stages: the first stage is for the prevention of the events which may cause risks and takes place before taking the decision of financing potential clients, being followed by the credit risk monitoring stage which takes place after the loan financing and until the full repayment;
- to speed up the selling of the repossessed assets;
- to increase the collections related to the non-performing portfolio.

- to detect and correct the occurred problems in due time;
- the improvement and amendment of the Procedures of the Bank in due time according to the legislation in force;
- increase of the level of the professional qualification of our employees by participating at external and internal training programs;
- improving the IT System in order to minimize the risks of the Bank;
- expand the cards products portfolio for both companies and private individuals and POS acquiring;
- continue to expand the retail product "First House" for granting of housing loans;
- focus on expanding the retail lending in local currency, as a strategy the bank will focus on medium and high net individuals that are not so sensitive at current market fluctuation.
- moderate lending expansion to new corporate customers with focus on financing of the current activity of the companies; as a strategy the bank will focus on medium & large corporate customers with solid financial statement that can sustain their business in the current market conditions.

In order to have a balanced loan portfolio the bank currently focus on sectors related to real economy such: food, services, trade with primary products, agriculture, energy, distribution, etc.

- focus on expanding the corporate and especially SME lending in local currency and convert existing exposure from foreign currency into local currency;
- avoid investment loans in real estate project or in non-productive projects for corporate clients;
- focus in co-financing the projects with EU Structural funds option for corporate and SME clients;
- granting working capital credit lines addressed to SME's with state guarantee;
- increasing the turnover of our customers through our account – better monitoring of quality of services;
- improving the capital base and the prudential ratios;
- attract new deposits from the customers that have funds availability;

**Corporate Banking Division** serves a wide range of clients, legal entities from all the sectors of the economy.

The products and services provided to clients support a mutually beneficial relation, with the purpose of contributing to the Bank's profitability, and also to cover clients' needs.

The main objectives of Corporate Banking for 2018 were the following:

- offering support to the network selling channels for enlarging the corporate portfolio by attracting new clients with acceptable risk and profitability;
- monitoring constantly the market evolution in order to adjust the corporate financing to the clients' needs and improve products offered to customers;
- Improving the structuring, negotiation, execution and performance of loan facilities and contributing to the minimization of losses from lending activity.

**Retail Banking Division** offers a variety of lending and savings products for individuals. Retail Banking has developed a range of savings products in order to improve the Bank liquidity and attract financial resources from the population.

On the Retail segment, the bank focuses on the following types of loans:

- Real estate investment loans, mainly "Prima Casa" loans
- Consumer loans
- Credit cards
- Overdrafts

The main objectives of Retail Banking for 2018 were the following:

- improving the efficiency of the loan approval process by improving the automation of related operations;
- continuous improvement of existing products, both loans and deposits, in order to adapt the offer to the new market requirements and consumers;
- developing of creative savings products in order to diversify resources and increase the customers' base;
- expanding client portfolio by attracting customers according to risk strategy;
- optimizing the cross-selling customer's portfolio.

**Risk management**

The risk management activity is a process focused on the analysis of the risk profile, in order to achieve a balance between the level of undertaken risks and the profitability related thereto, in the purpose of ensuring the development of the Bank's activity on solid grounds. In this way, the Bank's capital will be protected and the added value for shareholders will increase.

The main risks which the Bank is facing result from the performance of the banking activity on the Romanian territory, as well as with foreign counterparties.

The most important financial risks to which the Banks is exposed are the credit risk, the operational risk, the liquidity risk, the market risk and the reputation risk. The market risk includes the currency risk, the interest risk and the price risk.

*a) The credit risk*

The Bank is exposed to the credit risk, namely to the risk of undergoing losses or not realizing the estimated profits, as a consequence of the counterparty's default in fulfilling its contractual obligations. The credit risk source is not represented only by the classic credit activity, this occurring in any activity which involves a counterparty risk. In this sense, the identification, assessment, management and control of the credit risk are concerned both with the activities emphasized in the balance sheet and with those off balance sheet, which are subject to this risk.

The credit risk is treated, managed and monitored differently, based on the nature of the counterparty to which it is exposed: non-banking clients, respectively private individuals and legal entities (classic credit risk) and credit institutions (the limitation of exposure towards other banks and the correspondent relations).

At the Bank's level, the emphasis is placed on the degree of concentration of the portfolio function of various factors, such as: a) for legal entities: activity sector, facility duration, facility type, country of origin, company size, geographical area and b) for private individuals: product type and geographical area as well as the interdependencies between such, the final objective being that of holding a diversified credit portfolio, which allows the control and management of the undertaken risks and the avoidance of the deterioration of its quality, due to the similarities between the composing elements.

In order to limit the counterparty risk to the level of placements or correspondent banking account with other banks, the Bank establishes and monitors the compliance with the maximum limits of exposure for each bank on the money market and foreign exchange markets, in correlation with the risk of such counterparties, and also to the level of the Bank's own funds.

*b) The operational risk*

The operational risk - the risk of undertaking losses or of failing to realize the estimated profits, which may be determined by internal factors (the inadequate development of certain internal activities, the existence of an inadequate staff or systems, etc.) or of external factors (economic conditions, changes in the bank environment, technological processes, etc.).

In order to manage operational risk, the Bank monitors the operational risk events by establishing Key Risk Indicators and maintaining a Loss Database with the losses generated by these events.

At the same time, the management of the legal risk is considered component of the operational risk, which occurs as a consequence of the failure to apply or of the incorrect application of the legal or contractual obligations, which has a negative influence on the Bank's operations or situation.

In order to manage legal risk, the bank monitors the litigations in which it is involved as plaintiff, as defendant or as garnished third party.

*c) The liquidity risk*

The liquidity risk is the risk of undergoing losses or of not realizing the estimated profits, which results from the Bank's impossibility to honor at any time the short term payment obligations, without this involving costs or losses which cannot be borne by the Bank.

The structure of assets and liabilities was analyzed based on the period remaining until the contractual due date. The Banks wants to keep a balance between the maturity dates of placements and the due dates of the attracted sources. The essence of managing the liquidity risk means the certainty that the Bank holds or may access liquid funds to be able to satisfy the operational needs in regular activity conditions which needs additional sources of liquidities, but also in unpredictable situations.

*d) The currency risk*

The currency risk, the component of the market risk, is generated by miscorrelations between the Bank's receivables and commitments in a certain currency (represented in the Bank's balance sheet and in elements outside the balance sheet). The main currencies held by the Bank are EUR and USD.

*e) The interest rate risk*

The interest rate risk, component of the market risk, results from the GAP between the Bank's assets and liabilities which carry interest and the spread between them per band and cumulative.

The sources of the interest risk are the miscorrelation between the re-pricing date of assets and liabilities which carry interest, unfavorable evolutions in the shape and inclination level of the interest efficiency curves (non-parallel evolutions of the efficiencies of the Bank's interests payable and to be collected), the non-correlation of the evolutions between reference interests to which the Bank's payable interests and interests to be collected are added, as well as the options incorporated into the Bank's products, options which the clients may exert (the anticipated refunding of credits, the withdrawal before the due date of term deposits).

In order to limit the interest risk at the level of the credit activity, the Bank generally practices for loans variable interests, based on the Bank's policy and based on certain reference interests on the market (EURIBOR, LIBOR, and ROBOR). In order to limit the interest risk at the level of attracted sources, the Bank practices for deposits fixed interests. Based on the amount of the deposit as well as the market conditions, the Bank may negotiate the interest for such deposits.

*f) The price risk*

The price risk, component of the market risk, occurs from the market fluctuations of the price in the movable valuables, goods and derived financial instruments.

The bank does not hold at the end of the financial year, a trading portfolio and consequently it is not subject to the price risk.

*g) The reputation risk*

The reputation risk, the risk of undergoing losses or of not realizing the estimated profits, as a consequence of lack of trust in the Bank's integrity.

The management of the reputation risk is concerned with the permanent insurance, based on reality, of a positive image on the market with the clients, the other financial institutions in the system, the shareholders, the State's institutions, the supervision control, and the media.

Actual figures at the end of 2018, in comparison with ones for 2016 are presented below, underlying the main items of assets and liabilities from the Balance sheet and Profit & Loss account:

**Actual 2018 - Balance Sheet**

***Due from banks***

The total due from banks amounted to RON 537.05 million representing 27% from the total assets and has the following structure:

- Balances with National Bank of Romania amounted to RON 200.15 million, out of which the local currency and foreign currency reached the level of RON 122.70 million and respectively EUR 16.61 million. Minimum Mandatory Reserves were: RON 59.96 million and EUR 14.83 million;
- Funds in the correspondent accounts amounted to RON 3.08 million, representing reserves at the banks abroad.
- Placements represented RON 333.82 million, with local banks.

Allowances for expected loss are set up in accordance with IFRS and amount to RON 0.19 million.

**Customer Loans**

The loans granted to customers at a value net of provisions, including the related accruals, represent 41% from the total assets and amounted to RON 820.67 million, out of which:

- ❑ RON 495.63 million legal entities (60%)
- ❑ RON 325.04 million private individuals (40%)

Specific risk provisions are constituted as per the IFRS regulations, amounting to RON 44.41 million.

**Fixed assets**

The fixed assets amounted to RON 9.91 million, representing 0.5% from the total assets.
The bank's Board of administration decided on using the straight line amortization method, during the life spans specified in the legislation in force per each category.

The constructions with a net value of RON 2.67 million hold the main percentage (26.4%) from the total of fixed assets and are represented by works carried out at the Bank's headquarters and at the leasehold improvements for the spaces rented for the activity of branches, an office building (for Deva Branch), as well as a villa purchased for the Bank's representatives. These expenses are capitalized and are amortized over a period of 50 years for the purchased real estate and respectively, over the number of years for the duration of rental contracts.

**Due to banks**

- ❑ RON 66.70 million representing mainly deposits from domestic banks and 4% of the total deposits;

**Customer Deposits**

- RON 1,633.69 million (nominal value without accruals) represent liabilities to customers, and 96% of total bank's deposits, out of which:
    - RON 221.55 million – current accounts
    - RON 1,412.14 million – deposits

**SHARE CAPITAL**

The Bank's share capital registered at Trade Registry, amounting to RON 421.14 million and consists of 4,211,432,900 shares, with a face value amounting to RON 0.1 each, which grant legal rights to their holders.

The adjustment for inflation in accordance with IAS 29 amounts to RON 36.17 million and the Bank's share capital presented in the Financial Statements amounting to RON 457.31 million.

**Actual 2018 - Income statement**

The total income for 2018 amounting to RON 109.91 million, out of which:

- RON 56.14 million - interest income received;
- RON 3.55 million - income from commissions;
- RON 2.08 million - net profit from exchange operations;
- RON 48.14 million - other extraordinary income.

The total expenses related to the income realized in 2018 amounted to RON 99.41 million, out of which the expenses from bank's operations are RON 31.20 million, are as follows:

- RON 30.39 million - interest expenses paid;
- RON 0.81 million – commissions expenses;

The net interest income is RON 25.76 million.
The net commission income is RON 2.74 million.

The operating costs amounting to RON 134.42 million have the following structure:

- RON 28.92 million expenses with the staff members;
- RON 102.32 million represent administrative expenses;
- RON 3.18 million expenses with the depreciation and revaluation of fixed assets;

As at 31.12.2018, the Bank registered a net profit of RON 10.5 million.

**Other information**

The number of branches/agencies is 30 as at the end of 2018, following the closure of Focsani and Vaslui branches in May 2018 (28 branches and 2 agencies).

The number of employees of the bank was 259, out of which 142 employees in branches/agencies and 117 employees in Head Office.

For the end of 2018, the Bank has registered the following financial performance indicators presented comparable with 2017:

| Ratios/ Reporting data | Dec-18 | Dec-17 |
|---|---|---|
| **Own funds** | **RON** | **RON** |
| Own funds Tier 1 | 281,047,369 | 130,953,966 |
| Total own funds | 281,047,369 | 314,952,881 |
| **Capital adequacy ratios** | | |
| Capital adequacy ratio Tier 1 | 26.16% | 14.60% |
| Total capital adequacy ratio | 26.16% | 35.12% |
| **Debt-to-Equity ratio** | 13.72% | 6.60% |
| **Liquidity ratios** | | |
| Liquidity ratio | 3.40 | 3.75 |
| Quick ratio | 50.95% | 47.15% |
| Liquidity coverage ratio (LCR) | 417.63% | 201.91% |
| **Profitability ratios** | | |
| Return on Asssets (ROA) | 0.53% | 0.29% |
| Return on Equity (ROE) | 3.62% | 4.06% |
| Total expenses to total revenues | 90.11% | 162.39% |
| **Ratios on the quality of the assets** | | |
| Non-performing loans ratio | 6.64% | 9.13% |
| Impaired receivables/Total credits | 11.83% | 14.30% |
| **Other ratios** | | |
| Granted loans/attracted deposits | 50.23% | 55.93% |
| Total debt/Total equity | 5.88 | 13.03 |

The obligations to social insurances and to the State budget were paid entirely and within the terms established by the regulations in force.

The evaluation of assets and liabilities expressed in currency is made at the exchange rates on the currency market, communicated by the National Bank of Romania, on the last working day of the month.

The realization of the obligations stipulated by the law regarding the organizing and fair and to date accountancy is in compliance with the accounting principles (prudence, permanence of methods, continuity of activity, independence of the financial year, intangibility of the opening balance sheet, non-compensation).
The book keeping records are kept in Romanian and in the national currency. The accountancy of operations performed in currency is kept both in national currency and in foreign currency. The book keeping records are made based on documents prepared legally, chronologically and systematically. Any patrimonial operation is written down, when it is made, in a document which constitutes the base of book keeping records, thus acquiring the capacity of supporting document.

The internal control system is organized as a separate activity within the bank being composed by the following: risk administration department, compliance department and internal control department, having as purpose the application of procedures and of internal norms, and the compliance with the legal banking norms in force.

The exchange rates as at 31.12.2018 were the following:

- RON/EUR - 4,6639
- RON/USD - 4,0736

**Proposals**

As a result of activity performed during the financial year 2018, the Management of Marfin Bank (Romania) SA request for approval to the General Shareholders' Meeting:

- Report of the Board of Administration regarding the development and activities of Marfin Bank (Romania) SA and its financial position for the year ended December 31, 2018;
- Discharge for the year ended December 31, 2018.

**Cleovoulos Alexandrou**
**Chairman of the Board of Administration**

**by:**
**Empowered person**
**THEODOR CORNEL STANESCU**

**In accordance with the decision of the Board of Administration of Marfin Bank (Romania) S.A. of April 17, 2019**