Raiffeisen BANK

Proper banking

Annual Report 2017

Survey of key data

Consolidated financial statements according to IFRS

	2017* EUR '000	2016* EUR '000	CHANGE (%)
PROFIT AND LOSS			
Net interest income	257,885	247,642	4%
Net commission income	128,350	138,369	-7%
Trading profit	68,139	66,969	2%
Administrative expenses	-280,981	-260,877	8%
Profit/(loss) before tax	132,233	120,509	10%
Profit/(loss) after tax, before the net income obtained from the sale of interrupted activity	111,407	100,045	11%
Net profit for the year	111,407	100,045	11%
Number of ordinary shares	12,000	12,000	0%
Earnings per share (in EUR/share)	9,284	8,337	11%
BALANCE SHEET			
Loans and advances to banks (including placements with banks)	19,170	120,272	-84%
Loans and advances to customers	4,764,328	4,351,598	9%
Deposits from banks	109,274	128,386	-15%
Loans from banks	200,356	250,509	-20%
Deposits from customers	6,384,177	5,808,052	10%
Equity (including minorities and profit)	771,932	720,950	7%
Balance sheet total	7,912,806	7,368,400	7%
REGULATORY INFORMATION			
Risk-weighted assets, including market risk	4,691,815	4,429,909	6%
Total own funds	729,325	734,878	-1%
Total own funds requirement	375,345	354,393	6%
Excess cover ratio	94.31%	107.36%	-13.1 PP
Core capital ratio (Tier 1), including market risk	13.14%	13.15%	0 PP
Own funds ratio	15.54%	16.59%	-1 PP
PERFORMANCE			
Return on equity (ROE) before tax	19.07%	16.85%	1.5 PP
Return on equity (ROE) after tax	16.07%	13.99%	1.5 PP
Cost/income ratio	60.36%	53.93%	6.4 PP
Return on assets (ROA) before tax	1.73%	1.68%	0 PP
Risk/earnings ratio	20.85%	42.20%	-21.3 PP
RESOURCES			
Number of employees	5,314	5,265	1%
Business outlets	451	478	-6%

*Informative conversion in euro, unaudited

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Foreword

STEVEN VAN GRONINGEN
Consistently ranked among the most admired CEOs in Romania, Steven van Groningen is proud of the Bank's achievements obtained during its 20 years of presence on the Romanian market, which we celebrated in 2017. *"These 20 years have been an extraordinary journey. We have built together a strong, respected bank, with an innovative approach, that is among the top five banks in Romania and enjoys the appreciation of our clients, partners, shareholders, and millions of Romanians."*

Foreword

For Raiffeisen Bank Romania, 2017 marked the anniversary of its 20th year on the Romanian market. A moment for review and one in which to look confidently to the future ahead. The Romanian banking industry has changed tremendously over the last 20 years, and Raiffeisen has succeeded, in many ways, to be one of the innovative players that have helped to advance the banking system in response to customers' expectations.

In such a competitive market, it was not easy to operate for 20 years without any setbacks, especially when you have gone, as a national economy and banking system, through a major financial crisis like the one between 2009 and 2012. I believe that our responsible approach, even in the years before the crisis, made the difference, and that we have managed to serve as an example with our long-term approach in our relationships with all stakeholders.

In terms of figures, we managed to be a top bank in Romania with EUR 7.74 billion total assets, 2 million customers (1.9 million individuals, 100,000 SMEs and 5,600 corporations), with more than 450 outlets across the country and over 5,000 employees.
We have grown year after year backed by Raiffeisen Bank International's investments, exceeding EUR 1 billion in total, and have developed in size, shape and style, while financing the Romanian economy. Over the past 20 years, we have granted loans exceeding EUR 7 billion to our customers, helping them fulfill their plans and dreams. As far as our contribution to the state is concerned, direct and indirect taxes and fees delivered by Raiffeisen Bank exceeded EUR 640 million during that period.

As for 2017, it was a year of extraordinary GDP growth, although this was fueled by increased consumption and marked by a series of uncertainties (such as frequent changes in fiscal legislation), enough to temper the enthusiasm of the business environment.

In our case, the responsible and balanced growth strategy was noticeable in the trend of customer loan growth in 2017: the balance of loans to individuals increased by 9 per cent, those granted to SME by 11 per cent, while credit to medium and large corporates advanced by 10 per cent. We are very pleased with the development of new loans during 2017, as they increased by 19 per cent compared to 2016, to approximately EUR 3 billion. Nearly 60 per cent of them were granted to local entrepreneurs and large companies, up 21 per cent against the previous year. Loans for investments, trade finance and circulating capital, funds granted for large projects and the collaboration with the European Investment Fund have all contributed to this positive development. New individual loans for personal needs and housing exceeded EUR 1 billion, up 16 per cent from 2016.

More than half of the individual customers with current account bundles opted for those in the "Zero" category to manage their savings and operations as efficiently as possible. In fact, the inflows into current accounts were the basis for the 13 per cent increase in the customer deposits balance.

We enjoy a variety of funding sources that will enable us to keep financing the economy in a responsible and sustainable way. Our capitalization level is also solid, with a solvency ratio of 15.9 per cent as of December 2017, prior to the 2017 profit sharing decision.

The Bank's operating expenses increased by 7 per cent in 2017, with investments in technology, digitization and simplification influencing this growth. We will continue to invest considerable amounts in the digitization process in 2018, because the future belongs to quality, as well as easily accessible and fast products. At the same time, external costs increased, mainly from significant wage hikes and inflation returning to positive territory, and these elements obviously influenced our operating costs as well.

I would like to thank all my colleagues in the Raiffeisen team, who made all these achievements and successes possible with their perseverance, professionalism and sustained effort. I also thank our shareholders, as well as all of our clients, who place their trust in us and motivate us to improve our services every day.

We have a challenging 2018 ahead of us, therefore I wish you all a successful, responsible and fruitful year in doing and offering "Proper Banking"!

Steven van Groningen,
President and CEO Raiffeisen Bank

The Management of Raiffeisen Bank

MEMBERS OF THE SUPERVISORY BOARD, AS OF 2018, MARCH 31ST

Johann Strobl – CHAIRMAN
Martin Grüll – VICE-PRESIDENT
Peter Lennkh – MEMBER
Andreas Gschwenter – MEMBER
Ileana-Anca Ioan – INDEPENDENT MEMBER
Ana Maria Mihăescu – INDEPENDENT MEMBER
Hannes Mösenbacher – MEMBER

MEMBERS OF THE MANAGEMENT BOARD, AS OF 2018, MARCH 31ST

Steven van Groningen – PRESIDENT & CEO
James D. Stewart, Jr. – VICE-PRESIDENT, TREASURY & CAPITAL MARKETS DIVISION
Vladimir Kalinov – VICE-PRESIDENT, RETAIL BANKING DIVISION
Cristian Sporiș – VICE-PRESIDENT, CORPORATE BANKING DIVISION
Mircea Busuioceanu – VICE-PRESIDENT, RISK DIVISION
Bogdan Popa – VICE-PRESIDENT, OPERATIONS & IT DIVISION
Mihail Ion – VICE-PRESIDENT, FINANCIAL CONTROLLING & ACCOUNTING DIVISION

RAIFFEISEN BANK' STRUCTURE, AS OF 2018, MARCH 31ST

President
- Audit
- Legal & Corporate Governance
- Human Resources
- Communication and Public Relations
- Compliance
- Digital Transformation & Innovation Department

Financial Controlling & Accounting
- Accounting
- Controlling & Cost Management Department
- Business Intelligence Department

Risk
- Non-Retail Credit Risk
- Leasing Risk Department
- Retail Risk
- Credit Restructuring & Recovery
- Group Risk Controlling and Portfolio Management
- Risk Architecture and Early Warning Signs
- Collateral Department

Retail Banking
- Marketing
- Cards
- Private Individual Customers
- SME
- Sales & Service Development
- Retail Sales Management & Analytics
- Retail Regions

Corporate Banking
- Large Corporates
- Regional Corporates and Public Sector
- Cash Management
- Corporate Credit Products
- Project Finance
- Sales Management & Corporate Support Department

Treasury & Markets
- Capital Markets
- B/S & Portfolio Management
- Economic and Sectorial Research
- Financial Institutions & GSS
- Investment Banking Department
- Middle Office Department

Operations & IT
- Project Management
- Innovation & e-Banking Department
- Security Department
- IT
- Operations
- Brașov Operational Center
- Procurement and Facility Management

Corporate governance stands for the set of principles and mechanisms based on which the company's management exerts its prerogatives of management and control with the purpose of reaching the envisaged objectives through implementing the adopted strategy, having an ongoing fair behavior towards its clients, not only of the participants' on the capital market – counterparts, shareholders, investors or supervisory authorities.

Raiffeisen Bank S.A. (The Bank) pays major importance to a responsible and transparent management in order to maintain fair information and confidence of different interested parties. Therefore, the Bank applies the principles defined in the Corporate Governance Code (CGC) of the Bucharest Stock Exchange (BSE), which can be found on their web page – www.bvb.ro.

THE GENERAL SHAREHOLDERS' MEETING (GSM)

The General Shareholders' Meeting ("GSM") is the supreme authority of the Bank. The General Shareholders' Meeting may be Ordinary or Extraordinary. In accordance with the Articles of Incorporation of the Bank and the legislation in force, the General Shareholders' Meeting has a series of main competences.

The Ordinary General Shareholders' Meeting main competences:

- To discuss, to approve or to modify the annual financial statements of the Bank, upon the analysis of the Management Board's and Supervisory Board's reports, as well as that of the report and the opinion issued by the financial auditor, and to establish the dividends, if any;
- To elect the members of the Supervisory Board and the financial auditor of the Bank;
- To revoke the members of the Supervisory Board and the financial auditor of the Bank, whenever considered necessary;
- To set the remuneration for the Supervisory Board members, as well as the general principles and limitations with respect to the additional remuneration of the Supervisory Board members, as well as the general principles and limitations with respect to the remuneration of the Management Board members;
- To consider the performance of the Management Board members, to discharge them of liability and to decide to sue them, as case may be;
- To approve the budget of revenues and expenses and the business plan for the following fiscal year.

The Extraordinary General Shareholders' Meeting main competences:

- The change of the legal form of the Bank;
- The merger of the Bank with other companies;
- The dissolution or the split of the Bank;
- The issuance of bonds or conversion of such bonds from a category into another one or into shares;
- Any ammendment to the Articles of Incorporation of the Bank.

The conducting of the General Meetings of Shareholders, as well as the regulations with respect to the shareholders' rights and obligations, are regulated by Law no. 31/1990 on trading companies.

MANAGEMENT STRUCTURE

The management of Raiffeisen Bank S.A. is performed by the dual management system consisting of the Management Board and the Supervisory Board. The dual management system allows for the segregation of the company's management responsibilities – carried out by the Management Board – from the responsibilities of control/supervision which are fulfilled by the Supervisory Board. The dual management system ensures the operational decision-making process to become efficient, while increasing control over the decision makers.

THE SUPERVISORY BOARD

The Supervisory Board exercises an ongoing control over the Bank's current management activity conducted by the Management Board. The Supervisory Board consists of 8 members appointed by the General Shareholders' Meeting for four-year mandates, with the possibility to be re-elected for additional mandates.

As at 31.12.2017, the Supervisory Board structure and the professional background of its members were as follows:

Johann Strobl – Chairman
Ph.D. in Economics at the University of Economics and Business Administration, Vienna, Austria

Martin Grüll – Vice-president
MBA from the University of Economics and Business Administration, Vienna, Austria

Peter Lennkh – Member
MBA from the University of Economics and Business Administration, Vienna, Austria

Andreas Gschwenter – Member
MBA from the University of Innsbruck, Austria

Ileana-Anca Ioan – Independent member
MBA from the Romanian-Canadian Program and graduate of the Faculty of Automation of the Bucharest Polytechnic Institute

Ana Maria Mihăescu – Independent member
Graduate of the Faculty of International Economic Relations, Academy of Economic Studies, Bucharest

Hannes Mösenbacher – Member
Ph.D. in Economics at the University of Economics and Business Administration, Vienna, Austria

One position of member on the Supervisory Board was vacant.

The main competences of the Supervisory Board:

- To set the exact number of Management Board members, as well as their competences;
- To appoint and revoke the Management Board members;
- To verify the Bank's managerial operations are compliant with the law, with the Articles of Incorporation and with the resolutions of the General Shareholders' Meeting;
- To provide the General Shareholders' Meeting with at least a yearly report with regard to the supervision activity undertaken;
- To convene the General Shareholders' Meeting on an exceptional basis, should this be required in the best interest of the Bank;
- To establish advisory committees as required by law, but not only, if considered necessary in order to develop the Bank's activities. The committees will consist of Supervisory Board members.

During 2017, 5 Supervisory Board meetings took place and their decisions were made by the unanimous votes of the attending members. Also, a number of 17 decisions were made by circulation.

The Supervisory Board has set up a number of 5 committees from among its members, namely: the Audit Committee, the Nomination Committee, the Remuneration Committee, the Executive Credit Committee and the Supervisory Board Risk Committee.

The 5 committees set up by the Supervisory Board

The Audit Committee
The Audit Committee contributes to the improvement of Raiffeisen Bank S.A.'s activity and internal control, provides support to the Management Board in accomplishing its responsibilities, acts as an interface between the Bank and its financial auditor, and maintains a transparent relationship with the Bank's shareholders. The Committee also approves the internal audit regulation and the resources required for the audit activity and it is systematically informed on the internal audit activity rolled out by the Audit Directorate, analyzes the synthesis of the audit reports drawn up by the directorate and it informs the Management Board on their making the appropriate decisions with reference to the internal audit recommendations issued by the Audit Directorate.
The responsibilities, organization and way of operation are defined by the Rules of Organization and Operations of Raiffeisen Bank S.A.

The Audit Committee is made up of 3 Supervisory Board members, namely:

Ana Maria Mihăescu – Chairman;
(independent member on the Supervisory Board);
Martin Grüll – Member;
Ileana-Anca Ioan – Member
(independent member on the Supervisory Board).

During 2017, 4 Audit Committee meetings took place, the Committee's decisions being made by the unanimous votes of the attending members. Also, 3 decisions were made by circulation.

The Nomination Committee
The Nomination Committee identifies and recommends to the Supervisory Board or the Bank's GSM to approve of the candidates who will fill in the vacancies on the Management Board, and the Supervisory Board, respectively, and it regularly assesses the knowledge, competences and expertise of each Supervisory Board and Management Board member, as well as of the Supervisory Board and Management Board overall, and it reports to the Supervisory Board and Management Board, accordingly. The responsibilities, the organization and way of operation are defined in the Rules of Organization and Operations of Raiffeisen Bank S.A.

The Nomination Committee is made up of 3 Supervisory Board members, namely:

Johann Strobl – Chairman;
Martin Grüll – Member;
Ileana-Anca Ioan – Member
(independent member on the Supervisory Board).

During 2017, the Nomination Committee held one meeting, their decisions being made by the unanimous votes of the attending members.

The Remuneration Committee
The Remuneration Committee assists the Supervisory Board in so far as remuneration is concerned, in particular that of the Management Board's and Supervisory Board's members in compliance with the principles and limits approved by GSM and taking into consideration the long-term interests of the shareholders, investors and other interest holders in the Bank. The responsibilities, organization and way of operation are defined in the Rules of Organization and Operations of Raiffeisen Bank S.A.

The Remuneration Committee is made up of 3 Supervisory Board members, namely:

Johann Strobl – Chairman;
Martin Grüll – Member;
Ileana-Anca Ioan – Member
(independent member on the Supervisory Board).

During 2017, the Remuneration Committee held one meeting, its decisions being made by the unanimous votes of the attending members.
Also, there were 5 decisions made by circulation.

The Executive Credit Committee
The Executive Credit Committee is empowered to approve the granting of loans, including the credit lines and the contingent liabilities/off-balance sheet to a single debtor (or to one or several debtors of an "economic entity"), and makes decisions on the country risk, which require the Supervisory Board's approval, in accordance with the Credit Committee Bylaws as approved by the Supervisory Board.
The responsibilities, organization and way of operation are defined in the Rules of Organization and Operations of Raiffeisen Bank S.A.

The Executive Credit Committee is made up of 2 Supervisory Board members, namely:

Hannes Mösenbacher – Chairman;
Peter Lennkh – Member.

During 2017, the Executive Credit Committee made 82 decisions by the unanimous votes of its attending members.

The Risk Committee
The Risk Committee provides consultancy to the Supervisory Board and Management Board on the Bank's strategy and risk appetite, and it assists them with supervising the implementation of the respective strategy. The responsibilities, organization and way of operation are defined in the Rules of Organization and Operations of Raiffeisen Bank S.A.

The Risk Committee is made up of 3 Supervisory Board members, namely:

Hannes Mösenbacher – Chairman;
Johann Strobl – Member;
Peter Lennkh – Member.

During 2017, the Risk Committee held one meeting, its decisions being made by the unanimous votes of the attending members.
Also, 2 decisions were made by circulation.

THE MANAGEMENT BOARD

The Management Board ensures the managing of the Bank's current business and it consists of 7 members appointed by the Supervisory Board for mandates of up to 4 years, with the possibility of being re-appointed for additional time periods.

As at 31.12.2017, the Management Board structure and the professional background of its members were:

Steven van Groningen – President
Master in the Corporate Law, University of Leiden, The Netherlands

James Daniel Stewart, Jr. – Vice-president
Graduate of Finances and International Relations, University Lehigh – Bethlehem, SUA

Vladimir Kalinov – Vice-president
Graduate of the Marketing and Management Institute, New Delhi, and of the Faculty of Commerce, University of New Delhi, India

Cristian Sporiș – Vice-president
Graduate of the Faculty of Finances, Insurance, Banks and Stock Exchanges, Bucharest Academy of Economic Studies, Romania

Mircea Busuioceanu – Vice-president
Graduate of the Executive MBA Program, University of Sheffield, and of the Faculty of Finances, Banks and Accounting, Bucharest Academy of Economic Studies, Romania

Bogdan Popa – Vice-president
Master in Financial-Banking Management, "Alexandru Ioan Cuza" University of Iași, Romania

Mihail Ion – Vice-president
CFA, Ph.D. in Economics at the Academy of Economic Studies, Bucharest and graduate of the Faculty of Finance, Insurance, Banks and Stock Exchanges, Academy of Economic Studies, Bucharest

The main competences of the Management Board:

- The Management Board has all the prerogatives of managing, ordering and authorizing all the transactions within the Bank's scope of business, and has responsibilities for the monitoring of the appropriate and efficient operation of the internal control system, except for the prerogatives stipulated by the Bank or the Bank's internal regulations under the exclusive competence of the Supervisory Board and/or GSM;
- To take steps in order to adopt all the legal decisions related to the implementation of the provisions in the Bank's business plan and budget;
- To endorse the setting up of the committees stipulated by law and of other subordinated committees, as well as the Rules of Organization and Operations;
- To endorse the Bank's organizational chart and the internal structure of the directorates;
- To endorse the number of employees and the salary level of the Bank's employees;
- To draw up and submit to the Supervisory Board's approval a quarterly written report on the Bank's management, its business and its potential progress, as well as information on any other issues that might have a significant impact on the Bank;
- To make the yearly financial statements and the business report available to the Supervisory Board as soon as they have been drawn up, together with its own proposals for the profit distribution, before the respective proposal is submitted to the GSM for approval.

The Management Board set up a number of 9 committees, namely: Asset and Liabilities Committee, Risk Committee, Credit Committee, Problem Loan Committee, Private Individuals Credit Committee, Project Portfolio Committee, Rules and Procedures Committee, Security Council and Investment & Product Governance Committee.
Also, mention should be made that the Management Board has delegated a series of competences as follows:

To the *Credit Committee* – the implementation of the credit policies within the limit of the competences granted and the administration of the credit risk;

To the *Risk Committee* – the supervision of the implementation and observation of the "General Principles of Risk Management" in Raiffeisen Bank S.A., except for the liquidity risk and market risk (delegated to the Asset and Liabilities Committee) and the lending risk (delegated to the Credit Committee);

To the *Asset and Liabilities Committee* – the management of the Bank's balance-sheet and the drawing up of the overall financial policy of Raiffeisen Bank S.A.; the monitoring and establishing of the limits for the liquidity risk and the market risk; the approval of the pricing strategy (interest rates, commissions and fees, taxes);

To the *Rules and Procedures Committee* – the approval of the rules and procedures to be applied in the Bank.

During the reporting period, the Management Board held 46 meetings, and its decisions were made by the unanimous votes of the attending members. Also, 5 decisions were made by circulation.

The 9 committees set up by the Management Board

The Asset and Liabilities Committee (ALCO)
ALCO manages the balance-sheet of Raiffeisen Bank S.A. proactively and draws up the Bank's overall financing policy. ALCO monitors and establishes limits for the liquidity and market risks, analyzes the pricing policy and approves the prices for all the standard products supplied by the Bank (interest rates, taxes and commissions).

The Risk Committee (CARS)
CARS approves the risk framework for Raiffeisen Bank S.A. and, based on the policies, standards and the corresponding risk management methods, it ensures that the risks are under control so that they fit and stay within the defined limits.
Being responsible for supervising the implementation of the policies, standards and methods, CARS makes sure that the risks are prevented or that, in case they materialize, the impact is under control.
Moreover, CARS makes sure that the implementation of appropriate risk management is monitored through the regular reporting of the loss cases.

The Credit Committee (CC)
The Credit Committee is authorized to review and decide on all the limit exposures additional to the existing individual approval competences and it is responsible for observing the rules and regulations, as they are mentioned in the Credit/Lending Manual and the Bank's endorsed lending procedures.

The Problem Loan Committee (PLC)
The Problem Loan Committee is established and operates as a decision-making body with regard to the problem exposures and it has the authority to approve the first applications immediately after being transferred to the Credit Restructuring and Recovery Directorate, applications for restructuring/recovery strategies, credit reviewals, debt write-offs, IFRS provision build-up and release for all types of clients.

The Private Individuals Credit Committee
The Private Individuals Credit Committee has the authority to analyze and decide on the Private Individuals' credit applications and non-standard post disbursement requests. The Private Individuals Credit Committee is a two-tiered structure, with distinct levels of decision.

The Project Portfolio Committee
The Project Portfolio Committee is the decision-making body reviewing the performance of the existing project portfolio, analyzing and selecting new projects, prioritizing the already selected projects, examining the viability of the project portfolio based on the Bank's strategy and reconfiguring the project portfolio.

The Rules and Procedures Committee
The Rules and Procedures Committee approves the rules, procedures and other regulations within the Bank and makes sure that they are compliant with the operational requirements and compatible with the other internal and external regulations.

The Security Council
The Security Council proposes the strategy of security to the Management Board, it decides on the security policies and it confirms the management's commitment to granting an active support to security within the organization.

The Investment & Product Governance Committee
The Investment & Product Governance Committee acts on two distinct areas of competence:
- The Investment Advisory competence is aimed at supporting the Investment Advisory Services. This involves among other things the review of the investment strategies for previous quarter and set up strategy for the next quarter moving forward, as well as the endorsement of the investment recommendations.
- The Product Governance competence controls the Bank's Product Governance Process for financial instruments, structured deposits and insurance-based investment products offered to specific target markets regardless if they are distributed for execution only, advisory free or advisory.
  A Product Governance Process needs to be done for all in-scope products manufactured and distributed (including third-party products) and has the purpose to fulfil the legal and compliance requirements to offer this specific product to the defined end client and to provide strategic decisions if and via which a product should be offered.

CONFLICTS OF INTEREST

The applicable internal regulations require both the Management Board and the Supervisory Board of Raiffeisen Bank S.A. to declare any potential interest conflicts.

Therefore, the Management Board members should declare to the Supervisory Board all the personal interests significant for the transactions involving the Bank and the Group companies, as well as any other conflicts of interest. They must inform the other Management Board members, too. The Management Board members also filling in management positions within other companies should ensure a fair balance between the interests of the companies in question.

The Supervisory Board members should immediately report to the President of the Supervisory Board all the potential conflicts of interest. In the event the President himself is faced with a conflict of interest, he should immediately report it to his Vice-president.

The company contracts concluded with the Supervisory Board members that compel them to render a service in favor of the company or a subsidiary, outside their obligations as Supervisory Board members, in exchange of a compensation at all insignificant, requires the approval of the Supervisory Board. This also applies to contracts concluded with companies in which a Supervisory Board member has a significant financial interest.

PRACTICES OF REMUNERATION AND SELECTION AND ELEMENTS OF DIVERSITY

The system of remuneration of Raiffeisen Bank S.A. promotes a fair and efficient risk management and does not encourange assuming risks over the tolerated levels. This is in line with the Bank's and Raiffeisen Bank International (RBI) Group's long-term business strategy, objectives, values and interests and it incorporates measures to avoid conflict of interest.

The remuneration policies of Raiffeisen Bank S.A. are approved by the Bank's Supervisory Board through the Remuneration Committee.

The compensation system in Raiffeisen Bank S.A. is governed by the following principles:

1. The Compensation system supports the company's long-term business strategy and objectives, its interests and values by using the set of key performance indicators (KPI) of RBI and the key cultural competences.
2. The principles of compensation incorporate measures to avoid the conflict of interest.
3. The compensation policy and principles are in accordance with and promote solid and efficient risk management practices and avoid variable payment for assuming risks over the tolerant level for the institution through KPIs and process management (e.g.: the process of performance assessment, risk committees).
4. Compensation is based on a functional structure and it is linked to performance. Besides, special rules are applied to the personnel whose professional activity has a material impact on the risk profile.
5. Compensation is competitive, sustainable and reasonable and it is defined in accordance with the relative value of work, market and practice.
6. The fixed compensation is defined in principle in accordance with the market conditions.
7. The compensation structure (the variable payment proportion relative to the fixed compensation) is balanced, which allows each employee to have an adequate level of remuneration based on the fixed salary.
8. All variable payment programmes include minimum levels of performance and a maximum payment threshold.
9. Individual performance is the product of the results obtained and behaviors/competences based on both quantitative and qualitative measures, valued within the process of performance assessment and considering financial and non-financial criteria.
10. The personnel employed in controlling functions is compensated independently from the business unit they supervise, has the appropriate authority and their remuneration is determined on the basis of achieving their own objectives without taking into consideration the results of the area they monitor. The fixed and variable remuneration structure should be in favor of the fixed remuneration.

If an employee is paid a variable compensation, this is done for the measured performance. Performance is translated into results and behavior: "what" and "how", according to the system of performance management. Therefore, all the variable compensation schemes are linked to the management of performance or a comparative system of setting the targets.

Measuring the performance for the employees holding control functions (e.g. risk, audit, compliance) reflects the specific requirements of the respective positions.
Compensating the employees holding control functions is in accordance with touching the objectives related to the respective functions and, in an independent manner, by the business areas they supervise, but in proportion with their role in the Bank.

In Raiffeisen Bank S.A., the recruitment policy for selecting the management structure members establishes the criteria and procedure according to which the compatibility of those proposed/appointed as members of the management body should be assessed, and the assessment criteria of those holding key function, too.

The Fit & Proper Policy in Raiffeisen Bank S.A. establishes the applicable internal procedures and the criteria for assessing compatibility, in accordance with the local legal provisions (NBR Regulation no. 5/2013 on prudential requirements for the credit institutions, NBR Regulation no. 6/2008 on beginning the activity and modifications in the situation of the credit institutions, Romanian legal entities and the Romanian branches of third parties' credit institutions). Also, the policy defines the measures applicable in the situations whereby those persons are not compatible with the positions in question and how permanent compatibility is ensured.

As both the EBA guidelines and the NBR Regulation no. 5/2013 contain mentions with regard to the importance of diversity at the top level management, in addition to the standard set of compatibility criteria as regulated through the fit and proper policy, we are aware that the differences in gender, culture, education and experience of the top management members can only add more value to our organization.

Having in view the current structure of the management body, we precisely state that the principle of diversity from the gender point of view has been implemented by the appointment of Mrs. Ileana-Anca Ioan and Mrs. Ana Maria Mihăescu as independent members on the Supervisory Board of Raiffeisen Bank S.A.

Raiffeisen Bank S.A. annually draws up a report on the information transparency and advertising requirements, in accordance with the Regulation of the National Bank of Romania no. 5/2013 on prudential requirements for credit institutions and Regulation no. 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment companies, and on amending requirements of (EU) Regulation no. 648/2012.

This report is drawn up for the year 2017 and is published on the Bank's website at: www.raiffeisen.ro/despre-noi/guvernanta-corporativa/transparenta-si-publicare

Supervisory Board Report

Johann Strobl
Chairman of the Supervisory Board

Ladies and Gentlemen,

The 2017 financial year saw a positive overall macroeconomic trend and favorable market environment. This contributed to the strong year-on-year improvement in RBI's consolidated profit, which more than doubled compared to last year. The better operating result was mainly positively impacted by lower risk costs. Alongside the successful sale of non-performing loans, this was also due to a notable decrease in net provisioning for impairment losses. The result achieved by RBI in 2017 also confirmed that the strategic decisions taken over the past years have played a key role in helping the Group to successfully emerge from a challenging transformation period with increased strength. This is further demonstrated by a steadily strengthening capital base, balanced risk profile and considerably reduced NPL ratio – from 8.7 per cent (2016 pro forma) to 5.7 per cent. This improvement in asset quality was based not least on the determined reduction of non-performing loans in recent years.

The merger of Raiffeisen Zentralbank Österreich AG and RBI AG was put into effect on schedule upon entry in the commercial register on 18 March 2017. Following the merger, RBI continues to pursue its strategy as a leading universal banking group in CEE and Austria with the primary objective of creating long-term value. Selective growth is planned for the coming years in specific markets which demonstrate stability and good economic prospects. Effective capital and risk management, as well as the further reduction in non-performing loans, will also remain crucial in future. In 2018, there will be an increased focus on the challenges in the form of ongoing regulatory requirements, political risks, progressing digitalization and related changes to the competitive environment.

On the Romanian market, Raiffeisen Bank S.A. continued its organic growth, with an emphasis being laid on digitization and simplification together with careful risk management, which is reflected by the Bank's high profitability.

At the General Shareholders' Meeting on 24 April 2017, Raiffeisen Bank's shareholders took note of Karl Sevelda's resignation from his position as Chairman of the Supervisory Board and decided to appoint Hannes Mösenbacher as a new member and granta new mandate to Ileana-Anca Ioan as an independent member of the Supervisory Board.

The Supervisory Board met five times in 2017. On 25 April 2017, it elected Johann Strobl as its new Chairman and approved the new membership structures of the Audit Committee, Nomination Committee, Remuneration Committee, Supervisory Board Risk Committee and Executive Credit Committee. On 27 October 2017, the Supervisory Board again approved the new membership structure of the Audit Committee, this time with a majority of independent members (including the Chair).

Raiffeisen Bank's Management Board regularly provided the members of the Supervisory Board with comprehensive and timely information regarding relevant business developments. Thus, the Management Board supported the Supervisory Board to fulfil its supervisory and controlling responsibilities. Also, the Supervisory Board rendered the necessary support to the Management Board to accomplish the objectives of increasing the Bank's value and results in accordance with the shareholders' expectations.

The Supervisory Board was regularly informed regarding the activities carried out in 2017 by its committees mentioned above. The Supervisory Board agreed with the Management Board's report on Raiffeisen Bank's audited financial statements for the 2017 financial year, drawn up in compliance with International Financial Reporting Standards.

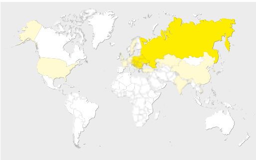
I would like to take this opportunity to thank all employees of Raiffeisen Bank for their hard work and unwavering efforts in 2017, as well as to ask for their continued commitment in tackling any challenges going forward.

On behalf of the Supervisory Board,

Johann Strobl,
Chairman of the Supervisory Board

Raiffeisen Bank International at a glance

Raiffeisen Bank International AG regards Austria – where it is a leading corporate and investment bank –, as well as Central and Eastern Europe (CEE), as its home market.



In total, nearly 50,000 employees serve RBI's 16.5 million customers in more than 2,400 business outlets, primarily in CEE region.

Subsidiary banks cover 14 markets across the CEE region. In addition, the Group includes numerous other financial service providers active in areas such as leasing, asset management and M&A.

RBI AG shares have been listed on the Vienna Stock Exchange since 2005.

At year-end 2017, RBI's total assets stood at €135 billion.

The regional Raiffeisen banks hold approximately 58.8 per cent of RBI shares, with the remaining approximately 41.2 per cent in free float.

Following the merger in March 2017 with Raiffeisen Zentralbank Österreich AG (RZB AG), its former majority shareholder, RBI AG assumed all rights, obligations and functions of the transferring company RZB AG in their entirety, in particular, the role of central institution for the Austrian Raiffeisen Banking Group.

Highlights 2017

Highlights 2017 018

In 2017 Raiffeisen Bank celebrated 20 years of presence on the local market – an opportunity to remember the most important achievements of the Raiffeisen team all the while. It was also a year in which we focused on digitization, supporting local entrepreneurs and providing financial solutions for SMEs, engaging in the communities we operate in, and encouraging sport practicing for Romanians of all ages.

JANUARY

We started the celebration of 20 years of Raiffeisen Bank in Romania

In 1997, Raiffeisen Vienna obtained the license to open a representative office on the Romanian market. It was the beginning of our success story – after two decades, we are among the top five banks in Romania. Over the past 20 years, Raiffeisen Group's direct investments in Romania have exceeded EUR 200 million and investments made in the bank have exceeded EUR 1.2 billion. All these achievements are due to the Raiffeisen team – therefore, throughout the year, for the first time in the history of the Bank, more than 5,000 Raiffeisen employees participated in the celebration of a success they themselves created.

FEBRUARY

The launch of the Catalizator program

Raiffeisen Bank launched Catalizator (Catalyst) – *a program for entrepreneurs with big ideas* (Stage 1 started in February, Stage 2 in September 2017). The program addresses decision-makers from medium-sized companies in Romania and helps them to extend and manage their businesses more efficiently through a series of workshops with renowned specialists. In total, Catalizator meant in 2017 the deployment of 6 modules in 6 cities through 36 workshops, with the participation of 380 companies.

MARCH

A new platform for the Online and Mobile banking

Raiffeisen Bank has acquired a new digital Internet/Mobile banking platform, provided by Backbase, a leader in the field. The development of the new digital architecture of the Bank seeks to provide customers with an enhanced experience through friendly applications and functionalities that make interaction with the Bank easier and faster.

APRIL **EUR 350 million SME credits awarded under the JEREMIE initiatives**
Raiffeisen Bank granted over 4,700 loans totaling this amount based on two agreements closed with the European Investment Fund (EIF). Our bank holds the leadership position on the local market on this type of SME financing, with more than 50% of the total volumes granted by all Romanian lenders through these programs, and with over 70% market share in terms of number of funds.

Anniversary roadshow in 9 cities
In order to mark the 20th anniversary of our presence in Romania, we organized a roadshow in 9 cities all over the country – Timișoara, Craiova, Brașov, Târgu Mureș, Bacău, Iași, Constanța, Cluj Napoca, and Bucharest. The "20 Years Together" campaign has emphasized the idea that our success over these two decades is the sum of the successes of all our colleagues put together. The campaign was awarded the Golden Award for Excellence (Internal Communication) at the 15th edition of the PR Award Gala.

MAY **Signing the COSME agreement with the EIF**
The European Investment Fund (EIF) and Raiffeisen Bank signed a COSME agreement that allows the Bank to provide 800 million lei (about 177 million euros) in the form of loans to small and medium-sized businesses in Romania. Approximately 2,000 Romanian SMEs can benefit from low-risk loans for longer terms.

JUNE **Launching Elevator Lab by Raiffeisen Bank International**
As a premiere in the banking group we are part of, RBI launched the Elevator Lab, a start-up accelerator program, inviting companies specialized in innovative IT solutions and technology for banks to apply for funding. Elevator Lab addresses start-ups in Austria and Central and Eastern Europe. Those selected can receive funding to develop their ideas and innovate in the banking field and then have the opportunity to work together with the specialists of the Raiffeisen Bank International Group.

JULY **Launching of the 7th edition of the Raiffeisen Communities Grant Program**

Raiffeisen Bank has been running this online social responsibility project since 2011. The main purpose of this initiative is to support financially or through direct involvement (employee volunteering, consultancy) projects with impact on the local communities in which the Bank operates. The theme of the 2017 edition was non-formal education. Raiffeisen Communities attracted 253 projects, out of which 182 met the eligibility criteria. Finally, 10 projects were declared winners of a grant of 45,000 lei (EUR 10,000, equivalent).

AUGUST **Fingerprint authentication on Android**

Starting in the summer of 2017, Raiffeisen Bank customers can log into the Mobile Banking app – Smart Mobile – on their Android smartphone, by using fingerprint authentication.

Raiffeisen Bank Bucharest Challenger

The 6th edition of the strongest 3x3 Basketball Tournament in Eastern Europe brought together the best 16 teams and the top ten players in the world, together with four Romanian teams who fought for qualification at FIBA 3x3 World Tour Lausanne Masters and cash prizes totaling $10,000.
The two finalists of the streetball tournament were Riga Ghetto Basket (Latvia) and Zemun Master (Serbia).

SEPTEMBER **More than 435,000 customers active in Online Banking**

More than 10,000 of the Raiffeisen Bank customers migrate monthly on the Bank's digital channels. The number of Smart Mobile and Raiffeisen Online customers exceeded 435,000 (active customers on September 30, 2017).

The credit card can also be obtained online

Raiffeisen Online users were able to directly apply online for a shopping card. The digital issuance process takes place in a fast and convenient digital environment. Customers can pick up the card from any Raiffeisen Bank branch they choose.

Highlights 2017

OCTOBER

The 10th edition of Raiffeisen Bank Bucharest Marathon
On October 14th and 15th, Raiffeisen Bank Bucharest Marathon took place, attended by approximately 17,000 adults and children.

NOVEMBER

Friedrich Wilhelm Raiffeisen (FWR) was designated the best Private Banking service in Romania
The prestigious international publications "Global Finance", "Financial Times – The Banker & Professional Wealth Management", and "Euromoney" designated Raiffeisen Bank's private banking division, FWR, as the best Private Banking service in Romania in 2017. The three prizes are the most important distinctions awarded to the Private Banking segment, following an analysis of services and products offered to customers, and have been awarded to FWR for the second consecutive year.

Moody's has upgraded Raiffeisen Bank ratings
Moody's Investors Service has upgraded the ratings assigned to Raiffeisen Bank's LEI short-term and long-term deposits to Baa2/Prime-2 from Baa3/Prime-3 and maintained a stable expectation. Moody's also upgraded the Bank's Financial Soundness Rating (BAA) to ba2 from ba3, and the adjusted BCA value was revised to ba1 from ba2. Moody's Investors Service has risen the ratings assigned to the long-term debt and long-term deposits of the parent group in Vienna, Raiffeisen Bank International AG (RBI), from Baa1 to A3, and has maintained the stable expectation for these ratings.

Face ID on iPhone X
Within the Bank's digitization strategy, Smart Mobile app allows, starting November 2017, Face ID authentication via iPhone X.

DECEMBER

Green Frog Award
The annual Corporate Responsibility Report of Raiffeisen Bank was designated the best non-financial report in Romania by the Deloitte Green Frog Award 2017. The competition aims to identify and reward excellence in non-financial reporting in Central Europe, assessing the content, materiality, structure and creativity of communication, as well as sustainability performance and strategic engagements.

Corporate Social Responsibility

Corporate Social Responsibility 023

Corporate Social Responsibility

Raiffeisen Bank has been contributing for 20 years to improving the quality of Romanians' lives and the development of the community as a whole. In 2017, the Bank offered, in the form of sponsorship, over 9.6 million lei, to fund corporate social responsibility initiatives. The value of the investment in community programs and projects was over 7.7 million lei (according to the LBG reporting methodology), especially those that fall into the following strategic directions: art and Romanian culture, education (including financial and entrepreneurial education), urban ecology, sport as a healthy lifestyle, and social initiatives.

From the perspective of the approximately 2 million private individuals, as well as of the 100,000 SMEs – Small and Medium-sized Companies – that are our Bank's customers, but also thanks to our over 5,000 employees who were working in more than 450 branches of the Bank at the end of 2017, the role that Raiffeisen Bank plays in the Romanian society is a significant one.

We are responsible for safeguarding our customers' savings and for making sound loan placements, with respect to private individuals, as well as the companies we service. Thus, we act responsibly in all areas and throughout the country, aiming to positively influence the communities where we operate.

In 2017, we continued to invest in financial education programs, supporting the Romanian art and culture, promoting a healthy lifestyle and caring for the environment. Therefore, we develop strategic community partnerships, together with local and national non-governmental organizations and the involvement of the employee-volunteers, for the benefit of those in need. We deem that any programs of social responsibility that we implement in a community need the employees' support and involvement, through volunteering and fund-raising campaign. The strategy of community investment, financial programs and the results obtained are detailed annually in the responsibility report of the company.

Although the non-financial reporting became compulsory only in 2016 by Order of the Ministry no. 1938 that partially transposes the EU Directive no. 95/2014 into the national legislation, Raiffeisen Bank has been reporting the non-financial activity since 2009. The report is drafted in accordance with the reporting requirements developed by the London Benchmarking Group (LBG), which evaluates the investments in community programs and influences on beneficiaries, and based on the standards of the Global Reporting Initiative (GRI) for the indicators regarding the corporate governance and the company's economic and social behaviour. Raiffeisen Bank uses these two reporting models, that complement each other, in order to offer a thorough view of its activity on the Romanian market.

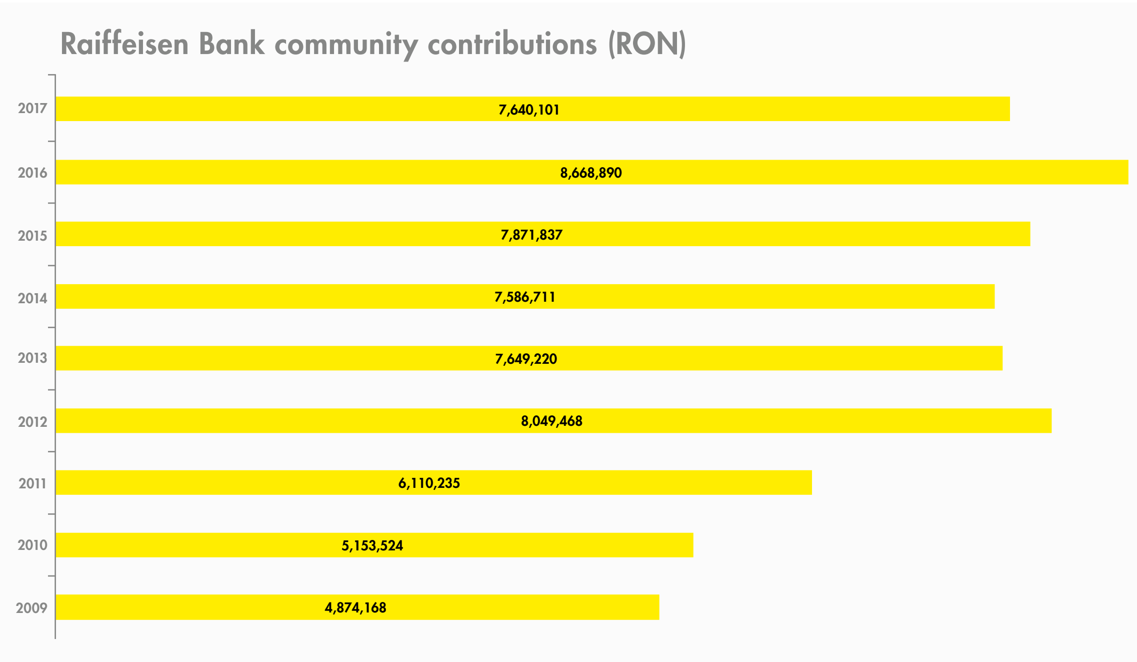
Significant accomplishments in 2017 with regard to community investment

- The total amount invested in over 60 community projects portfolio exceeded 7.7 million lei (according to LBG reporting criteria), with an average of 1,465 lei (EUR 316) per each Bank employee. The main community partners remain the NGOs, but the Bank continues to have strategic partnerships with public institutions (such as theatres) or educational establishments.
- The 7th edition of the Raiffeisen Comunități Grants Program (Raiffeisen Communities) attracted 253 community projects, and awarded the best 10 of them with EUR 10,000 each, adding up to a total grants value of EUR 100,000. Over 85 volunteers, Raiffeisen Bank employees, took part in the evaluation of the 182 eligible projects, out of which a specialists' jury evaluated the best 20 projects and decided, in the final stage of the competition, the 10 projects awarded.
- 242 Raiffeisen Bank employees chose to dedicate time in volunteer projects in 2017 as well, allocating a total of 842 hours of their working time to these activities.
- Raiffeisen Bank chose over the years to be a strategic partner to support prestigious cultural and sports events in Romania. Thus, we continued our partnerships with Sibiu International Theatre Festival, Transylvania International Film Festival – TIFF, SoNoRo, UNITER Awards Gala, productions and tours of Act Theatre, Bucharest International Marathon, and Via Maria Theresia Marathon.

- Another aspect of our commitment to communities where we operate is to support active, innovative and trend-setting non-profit organisations such as Green Revolution Association, The Association for Community Relationships, Tășuleasa Social Association, the Princess Margaret of Romania Trust, United Way Romania, Junior Achievement Romania, Teach for Romania, the Foundation for the Development of the Civil Society or Habitat for Humanity. Thus, we make sure that our investments generate relevant changes in our communities.

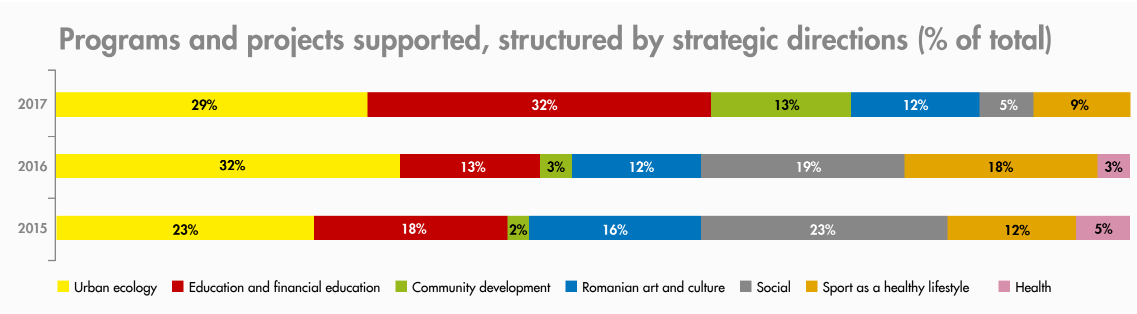
COMMUNITY IMPACT OF THE INVESTMENTS

The total amount of Raiffeisen Bank sponsorship contracts in 2017 exceeded 9.6 million lei, in a slight decline to last year practice. The Bank invested over 7.7 million lei (within the scope of LBG reporting) in community programmes, 9% less that the contributions reported for the previous year by the Bank and close to the investments of 2015.



The decrease registered from last year reflects the Bank's objective to focus mainly on its 5 strategic areas: urban ecology, education (including financial education), Romanian art and culture, sport as a healthy lifestyle, and social services.

Raiffeisen Bank continued to support programs and projects which offer access to basic and financial education (32%), endorse the concern for the environment (29%), promote the Romanian art and culture (12%), encourage sport as a healthy lifestyle (9%), and facilitate the social services for disadvantaged groups (5%). Similar to the previous years, Raiffeisen Bank continued to honour its existing partnership with the organizations that implement projects in the area of community development (13%).



Key numbers regarding Raiffeisen Bank's community involvement in 2017

Average contribution per beneficiary was **28** lei.

242 of the Bank's employees volunteered in community projects.

The volunteers allocated **842** hours to these initiatives.

On average, community partners managed funds in amount of **122,409** lei.

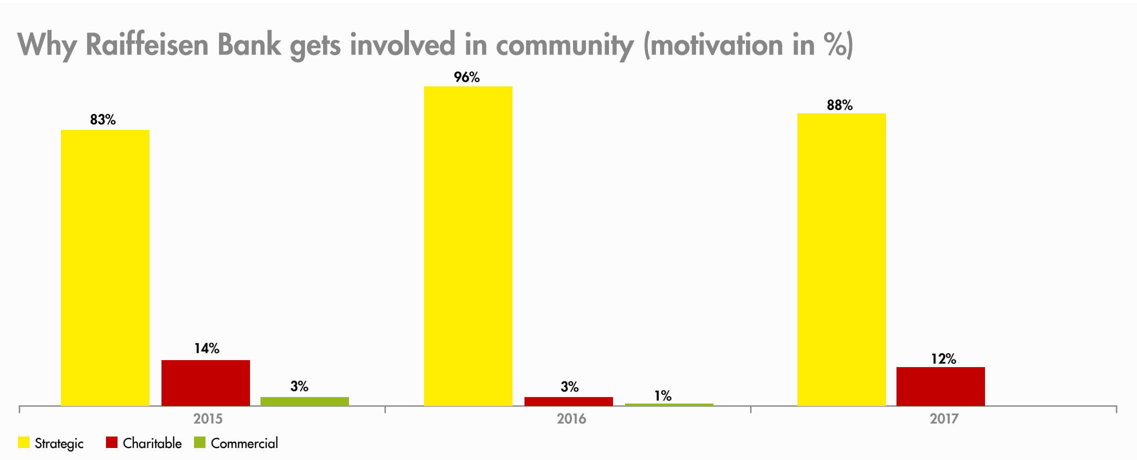
The Bank's contribution to its community portfolio represents **1.3%** of the gross profit.

Raiffeisen Bank's contribution per employee reached the amount of **1,465** lei.

Taking into consideration the attention that the Bank pays to the five strategic directions, in 2017 we increased the value of resources dedicated to these areas, reaching up to 87% (6.705.650 de lei) of the sponsorship total value. More precisely, 32% (2.441.340 lei) of the financial resources was directed to the educational projects, 29% (2.231.700 lei) to urban ecology, 12% (964.578 lei) to art and culture projects, 9% (702.345 lei) to sport as a healthy life style activities, and 5% (365.687 lei) to social initiatives.

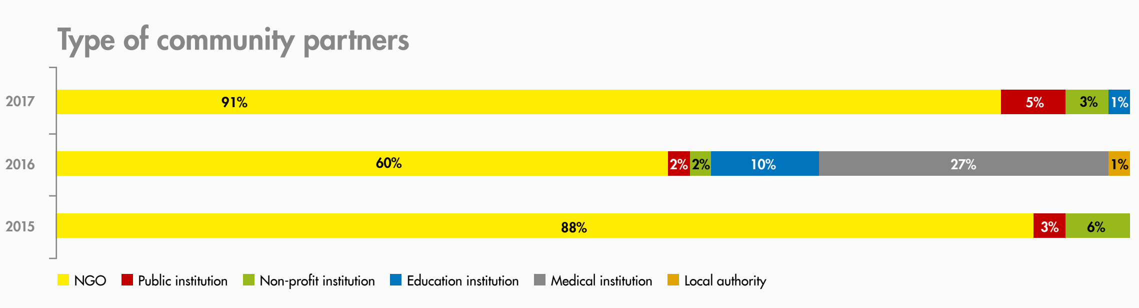
SOCIETY

Raiffeisen Bank acknowledges the importance of a healthy civil society, as a main contributor to a sustainable development of the communities where it operates. In many cases, the initiatives sponsored by the Bank create the space for other companies, employees, customers and other interested parties to get involved.

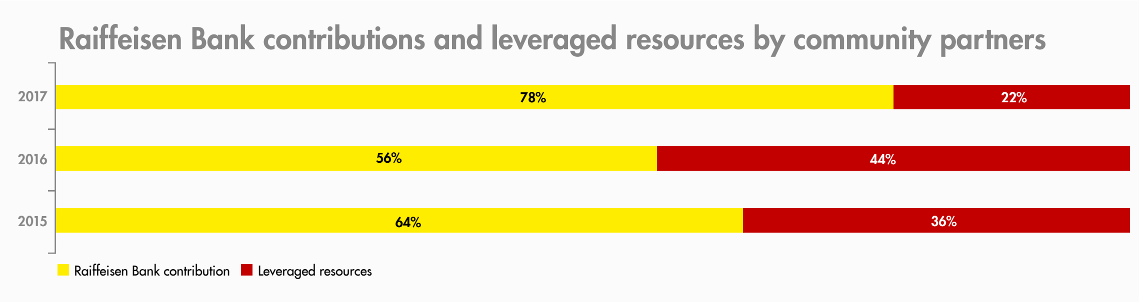


COMMUNITY PARTNERS

In order to know the needs of the community partners that we interact with, and to discover their priorities and the priorities of the community they belong to, we organize meetings, consultations and surveys on a regular basis. As for social intervention and community investment, we are trying to facilitate the cohesion of different society factors so as we find together solutions to the concrete problems with which they are confronted. We assume the role of a facilitator, but also that of an active supporter. For instance, we support arts and culture (without influencing the cultural act), not only by financing the very good quality projects, but also by deploying sustained efforts to increase the audience year after year.

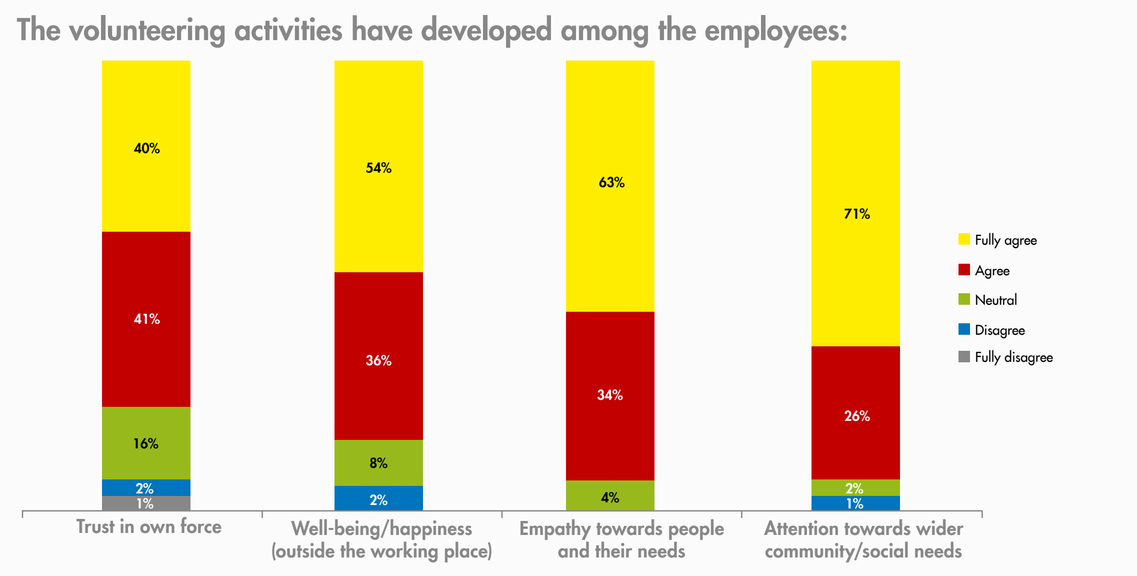


Moreover, we support our partners both in their efforts to attract additional resources for the projects they implement and in their efforts to develop their organizational capacity.



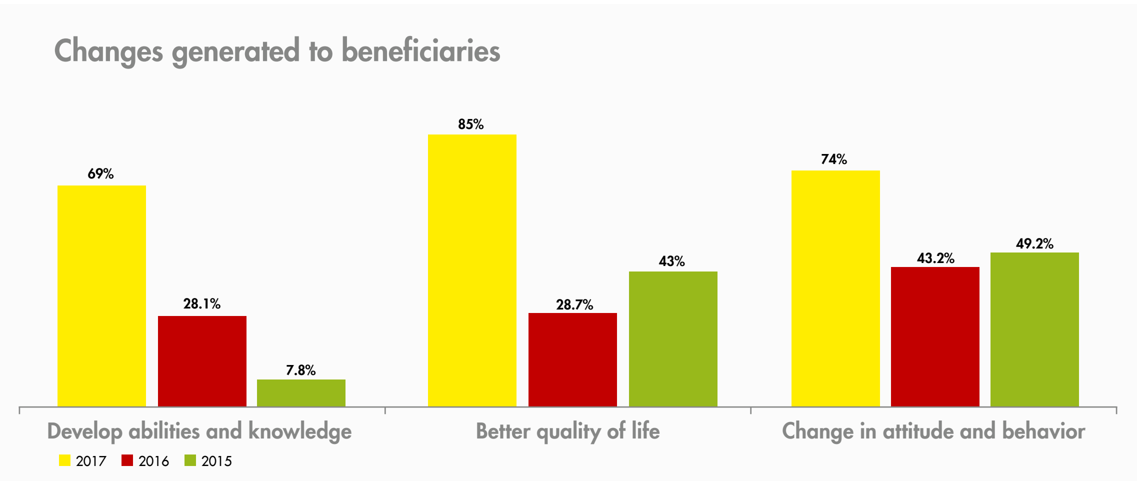
EMPLOYEE VOLUNTEERING

In 2017, a number of 242 Raiffeisen Bank' employees took part in volunteering activities, involving in project assessment and selection in various financing programs managed and financed by the Bank, financial education programs, and construction activities for underprivileged people.

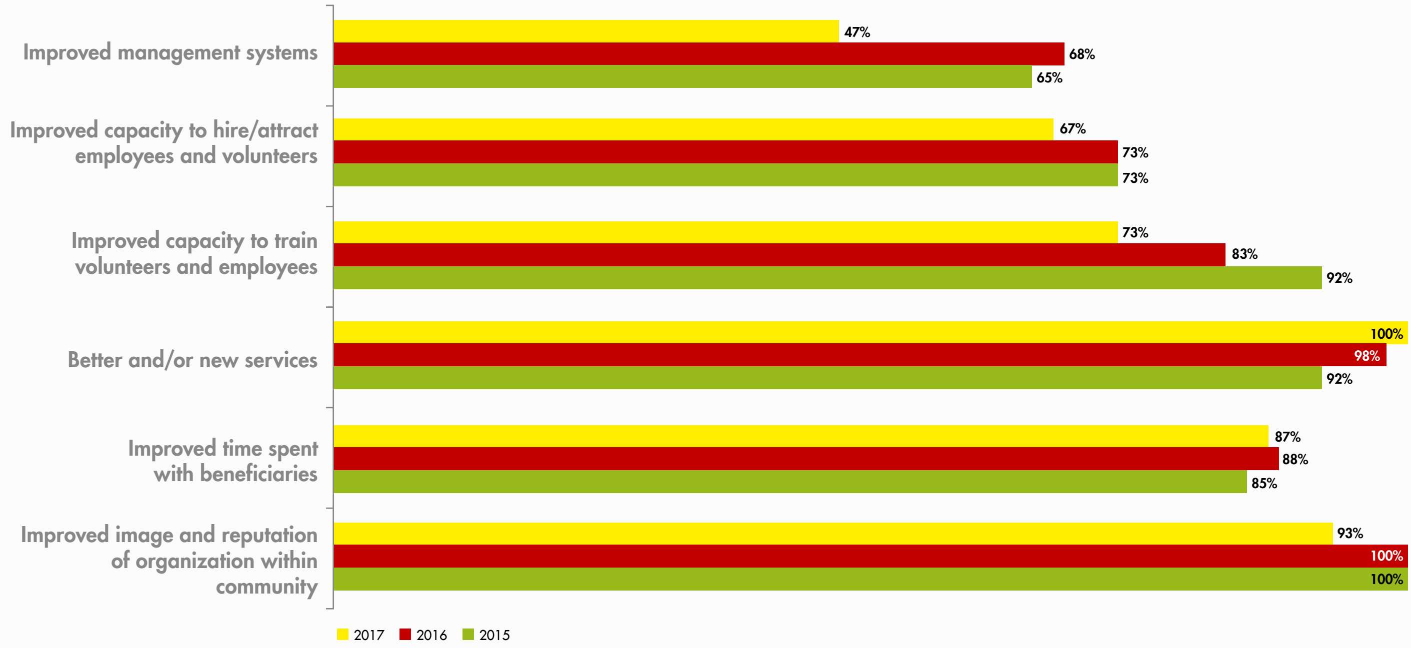


COMMUNITY PROJECTS' BENEFICIARIES

In 2017, a number of 271,546 people benefitted directly from programs implemented with the Bank's support. The main improvements reported refer to behavioral and attitude changes and life quality growth.
As Raiffeisen Bank's financial education projects expanded, a significant growth was recorded related to abilities development of the direct beneficiary.



Changes generated to community partners



Management Report

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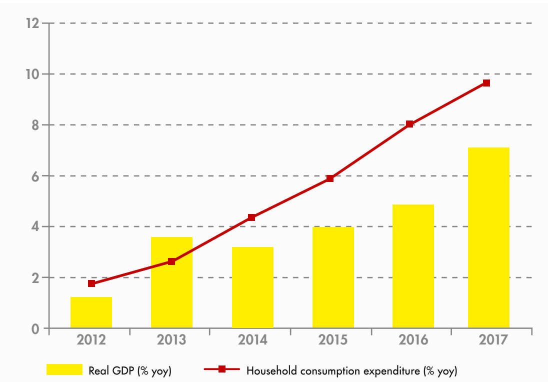
Economic growth surged in 2017 as real Gross Domestic Product (GDP) advanced by 6.9%. Similar to previous years, private consumption acted further as GDP growth main driver, on the demand side. Turning to the supply side, industry and services registered significant increases.

The fast increase of private consumption was backed by improvements recorded on the labour market (solid increase of wages and decline of unemployment rate). The additional hikes of wages in the public sector and of pensions maintained the individuals' propensity to spend at elevated levels. Gross fixed investments provided some signs of rebound in 2017, as their dynamics returned to the positive territory, following the decline in 2016. The advance of exports of goods and services was surpassed by a more rapid increase of imports, which resulted again in a negative contribution of net exports to the GDP growth. At the same time, the external imbalances (current account deficit and foreign trade deficit) widened further in 2017. Turning to the supply side, gross value added in industry and in services posted sound increases in 2017. Moreover, the GDP advance from last year was explained to some extent by the spike of gross value added in agriculture. The real GDP excluding agriculture went up by 6.5% in 2017, which is a slower growth rate compared to that posted by real GDP.

DYNAMICS OF ECONOMIC ACTIVITY



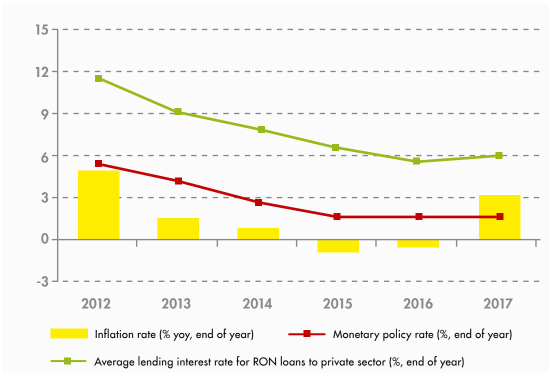
Source: National Institute of Statistics, Raiffeisen RESEARCH

The public budget deficit (cash terms) stood at 2.8% of GDP in 2017, slightly below the target set initially (3.0% of GDP). Despite the additional fiscal easing measures enforced, the jump of the public budget deficit above 3% of GDP in 2017 was avoided on the back of a cut in public investments (-10%) as well as with the help of one-off payments in special dividends received from state owned companies and by reversing the cut of excise duties for fuels.

The annual inflation rate returned to the positive territory at the beginning of 2017 and it increased rapidly, ending last year at 3.3%. The main driver of the inflation rate in 2017 was the strengthening of underlying inflationary pressures. Furthermore, several large adverse supply side shocks (increase of administered prices, increase of oil price, leu depreciation) also contributed to the increase of the inflation rate.

The National Bank of Romania (NBR) kept the monetary policy rate unchanged at 1.75% at all the monetary policy meetings in 2017. For the majority of the year, the monetary conditions were more stimulating than implied by the level of the key interest rate. Until September, money market interest rates (ROBOR) were quoted further significantly below the key interest rate as excess liquidity preserved in the money market. In Q4, ROBOR rates jumped exceeding the key rate as a liquidity shortage emerged at the level of the banking sector. Also, the NBR adjusted its rhetoric and it announced a change in its strategy aiming to reduce the interests' rate volatility by allowing a more flexible exchange rate. At the first two monetary policy meetings in 2017, the NBR narrowed the corridor between the interest rates at the permanent facilities to ±1 percentage point around the key rate from ±1.5 percentage points.

DYNAMICS OF INFLATION AND INTEREST RATES



Source: National Bank of Romania, Raiffeisen RESEARCH

KEY ECONOMIC FIGURES

	2013	2014	2015	2016	2017
Nominal GDP (EUR bn)	144.3	150.3	160.3	169.8	187.9
Real GDP (% yoy)	3.5	3.1	4.0	4.8	6.9
Private consumption (% yoy)	2.6	4.2	5.8	7.9	10.2
Gross fixed investments, private and public (% yoy)	-5.4	3.2	7.4	-2.0	4.7
Industrial output (% yoy)	7.8	6.1	2.8	3.1	7.8
ILO unemployment rate (avg., %)	7.1	6.8	6.8	5.9	4.9
Average monthly gross wage (EUR)	489	524	575	626	706
Producer prices (avg., % yoy)	2.1	-0.1	-2.2	-1.8	3.5
Consumer prices (avg., % yoy)	4.0	1.1	-0.6	-1.5	1.3
Consumer prices (eop., % yoy)	1.6	0.8	-0.9	-0.5	3.3
Public budget balance (% of GDP, cash terms)	-2.5	-1.7	-1.4	-2.4	-2.8
Public debt (% of GDP)	37.8	39.4	37.9	37.6	35.1
Current account balance (% of GDP)	-1.1	-0.7	-1.2	-2.1	-3.4
Gross external debt (% of GDP)	68.0	63.0	57.4	54.7	50.0
Foreign direct investment (% of GDP)	2.0	1.8	1.8	2.7	2.4
Official FX-Reserves (EUR bn, eop.)	32.5	32.2	32.2	34.2	33.5
Monetary policy rate (eop., %)	4.0	2.75	1.75	1.75	1.8
ROBOR 1-month, avg.	4.1	2.1	1.0	0.6	1.0
RON/EUR, avg.	4.42	4.44	4.45	4.49	4.57
RON/EUR, eop.	4.48	4.48	4.52	4.54	4.66

Source: National Institute of Statistics, National Bank of Romania, Raiffeisen RESEARCH

Lending activity showed more evident signs of recovery in 2017. Outstanding loans granted by the banks to the private sector (households and companies) increased by 5.4% in 2017, while they went up by 1.2% in 2016.

Also, for the first time since 2009, all three major lending segments – loans granted to the companies, housing loans, and loans for consumer and other purposes – posted positive dynamics in 2017 in terms of outstanding amounts.

Fastest advance was again recorded in case of housing loans (13.1%) that there were propped up further by the "First Home" governmental program. While improving, dynamics of loans granted to the companies and of loans for consumer and other purposes remained modest (3.0% and 2.0% respectively).

Similar to the previous years, the advance of outstanding banking loans in 2017 was exclusively driven by RON denominated loans (+15.7%), while a sharp decrease was recorded in case of FCY denominated loans (-10.3% in euro equivalent). In this context, share of FCY loans in total loans granted by banks to the private sector decreased to 37.9% in December 2017 from 43.4% in December 2016.

The reliance of domestic banks on foreign capital reduced further as the share of foreign liabilities in total gross assets decreased to 10% in December 2017 from 11.7% in December 2016. Also, the loans-to-deposits ratio decreased further in 2017 as the advance of deposits of households and companies held with banks (10.3%) outpaced that of loans (5.4%). The profitability of the banking system improved in 2017 thanks to good macroeconomic conditions, reviving lending activity, and due to reduction of net impairment loss. The capital adequacy ratio at the level of the banking system remained also elevated (18.9% in December 2017). NPLs ratio stood at 6.4% at the end of 2017, down from 9.6% at the end of 2016.

The following table shows the main developments in the aggregated balance sheet of credit institutions (banks, saving banks for housing, credit co-operative organizations) and money market funds from Romania in 2017.

AGGREGATE MONETARY BALANCE SHEET OF CREDIT INSTITUTIONS AND MONEY MARKET FUNDS

	2017 (RON BN)	2017/2016 (ANNUAL CHANGE, IN REAL TERMS %)	2017 (% OF TOTAL ASSETS)	2016 (% OF TOTAL ASSETS)
Loans and placements with banks and NBR	54.7	2.4	11.9	12.1
Loans to domestic residents, at gross value:	241.9	1.5	52.6	53.7
– households	121.8	4.3	26.5	26.3
– companies	110.5	-0.1	24.0	25.0
– public sector	9.5	-12.0	2.1	2.4
Debt securities issued by residents (mainly government securities)	88.9	3.8	19.3	19.3
Other assets, of which:	74.4	12.8	16.2	14.9
– external assets	29.6	18.5	6.4	5.6
– fixed assets	12.7	-3.9	2.8	3.0
Total gross assets	459.9	3.7	100.0	100.0
Deposits from domestic banks and other MFIs	8.7	30.6	1.9	1.5
Deposits from domestic residents:	315.1	6.9	68.5	66.5
– households	178.3	5.6	38.8	38.1
– companies	124.5	8.8	27.1	25.8
– public sector	12.3	6.9	2.7	2.6
Debt securities issued	2.5	27.1	0.5	0.4
External liabilities, excluding debt securities	45.0	-12.5	9.8	11.6
Capital and reserves, including provisions	66.6	-4.5	14.5	15.7
Other liabilities	21.9	17.7	4.8	4.2
Total equity and liabilities	459.9	3.7	100.0	100.0

NOTE:
Loans and assets are at gross value (which includes provisions), the figures being different from net values (gross values excluding provisions) which are reported in financial statements made public by credit institutions. In terms of liabilities, capital includes also provisions. For comparison, net assets of credit institutions amounted only to RON 427.4 bn at the end of 2017. Components may not sum up to totals due to rounding to one decimal.

SOURCE:
Own computations based on data published by the National Bank of Romania and the European Central Bank. Annual growth rates in real terms were computed by adjusting the annual nominal growth rates by the inflation rate in 2017 (3.3% yoy).

Summary of Raiffeisen Group's Results in Romania

2017 was a successful year for Raiffeisen. We reported stronger financial results, sharpened our focus across all business lines, and achieved growth in a balanced and responsible way.

In 2017,
the loan book was higher on all major segments, with customer deposits at all time high and excellent RoE of 15.8%.

HIGHLIGHTS

- The Group's foundations are in excellent shape, with access to stable and diverse sources of funding. We continue to be highly liquid and primarily deposit funded, with net Loans to Deposits ratio of 0.75.
- Higher loan book on all major segments, customer deposits at all-time high, and excellent RoE of 15.8% give us the confidence that we are on the right track and feed our ambition to further improve performance.
- Our revenue-generating capacity stays strong. Underlying revenues remained stable in 2017, but we are happy to see growing net interest income for the second year running, by 6% .
- We continued to play an active role in the capital market. Raiffeisen Bank Romania was joint book-runner in two of the largest private IPOs that ever took place on Bucharest Stock Exchange, accounting for 99% from the local IPO market in 2017.

ACCOMPLISHMENTS

- We continued to deliver upon our growth strategy and increased our business size also in 2017. We fastened the pace on lending and managed to achieve close to 10% increase in the stock of net loans for all primary customer segments (PI, SME, Corporate).
- 2017 brought forth an excellent performance for the Bank's loan production, with newly approved loans reaching Ron 13.6 billion, up by 19% compared to 2016. Almost 60% of these amounts went to local entrepreneurs and big companies.
- We continued to invest in digitization and strove for fast, reliable and readily available services for our dynamic customers. As a result, our digital customer base rose by more than 40%, up to 475,000.
- Our ongoing commitment to build long-lasting relationships and be a trustworthy partner for our customers yielded positive results: we saw our Net Promoter Score (NPS) improve by 24% in 2017.
- Our history of highly successful collaboration with the EIF continued in 2017 with the launching of two new programs meant to facilitate access to financing for micro, small and medium-sized companies: Cosme and SME initiative.

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[1] Computed for the Bank: net profit divided by the average value for Equity in the period, without the profit of the current year

[2] Excluding the proceeds from the VISA Europe share sale in 2016

[3] Variation in constant currency basis

[4] With login in the mobile or online application during the last month

[5] Net promoter score for private individuals, which measures customers' willingness to recommend the Bank

Summary of Raiffeisen Group's Results in Romania

SELECTED FINANCIALS

The Group's efforts go hand-in-hand with its vision, focused on sustainable and responsible development of the real economy and providing quality products that meet the ever evolving needs of our clients; these are also the main drivers behind our resilient earning power. Our underlying revenues remained stable in 2017, on the background of higher net interest income and pressures coming from the net fees and trading income. Details below:

OPERATING INCOME AND PROFIT	NOTE	2017 RON '000	2016 RON '000	informative conversion 2017 EUR '000	2016 EUR '000
				Unaudited	Unaudited
Net interest income	7	1,178,048	1,112,104	257,885	247,642
Net fee and commission income	8	586,317	621,382	128,350	138,369
Net trading and investment income	9	317,189	308,525	69,435	68,702
Non-interest income		948,452	1,060,315	207,625	236,110
Operating income		2,126,500	2,172,419	465,510	483,752
Operating expenses	11,12	1,283,550	1,171,536	280,981	260,877
Pre-provisioning profit		842,950	1,000,883	184,529	222,876
Net charge of provision for impairment losses	13	245,623	469,269	53,769	104,496
Share of gains of associates	22	1,485	9,562	325	2,129
Profit before income tax		604,057	541,176	132,233	120,509
Net profit for the year		508,919	449,278	111,407	100,045

4%

higher is our net interest income, increasing for the second year running.

Our net interest income grew sensibly in 2017 for the second year running, by 4%. The loan book dynamic, +8%[6], provided the primary growth fuel, while the rates for customer deposits continued to trend at record low levels in the local market. We are confident that core revenues will remain on an upward trend, as a natural consequence of our faithful adherence to the "organic growth" strategy.

In spite of an increasingly competitive environment, with sensible pressures on pricing, our payment-driven fees were slightly up, by 1%. On the downside, we witnessed a decrease in fees charged for our current account packages, which was expected considering that an important goal for us was offering highly cost-efficient solutions for our clients' saving and transactional needs. Coupled with the fastened pace of digitization, we are convinced that the long-term benefits for the Bank and our clients will largely surpass the short-term decrease in revenues.
Our clients' payment behavior improved also in 2017, for individuals as well as companies, and risk costs have consequently dropped by almost 50% as compared with 2016. If we exclude the impact of non-recurring events in both periods, like the impact of the walk-away law, CHF conversion campaign or changes in provisioning methodology, we can outline a 25% improvement in the underlying provisions for loan losses.

We invested in technology and enhanced our digital capabilities, with the aim of running lean, client-oriented processes and ultimately deliver quality, accessible and fast products for our clients. We are also operating in an economic environment characterized by growing costs, chiefly labor-related, but also with an inflationary background lately. As a result, the Group's operating expenses were 8%[6] higher yoy, affected also by some non recurring events which led to a lower reported figure in 2016

[6] Reported growth in 2017 vs. 2016 of 6% in net interest revenues, 12% in loan book and 10% in operational expenses are partly influenced by a change in the consolidation method for Raiffeisen Leasing, after the Bank increased its ownership in the company during 2017Net promoter score for private individuals, which measures customers' willingness to recommend the Bank.

Summary of Raiffeisen Group's Results in Romania

Our balance-sheet and capital position remained solid, with assets and funding profile dominated by the customer business.

				informative conversion	
BALANCE SHEET	**NOTE**	**2017 RON '000**	**2016 RON '000**	**2017 EUR '000**	**2016 EUR '000**
				Unaudited	**Unaudited**
Cash and cash equivalents	16	8,471,977	8,203,157	1,821,343	1,806,425
Loans and advances to banks	19	89,168	546,165	19,170	120,272
Loans and advances to customers	20	22,161,274	19,761,042	4,764,328	4,351,598
Investment securities	21	5,249,814	3,849,590	1,128,628	847,722
Tangible and intangible fixed assets	23, 24	383,200	355,506	82,382	78,286
Total assets		**36,806,415**	**33,460,643**	**7,912,806**	**7,368,400**
Deposits from banks	27, 29	1,440,247	1,720,601	309,631	378,895
Deposits from customers	28	29,695,999	26,374,944	6,384,177	5,808,052
Debt securities issued	29	512,501	512,239	110,180	112,801
Subordinated liabilities	29	849,017	954,973	182,525	210,296
Equity	32, 33	3,590,643	3,273,907	771,932	720,950
Total liabilities and equity		**36,806,415**	**33,460,643**	**7,912,806**	**7,368,400**

2017 brought forth an excellent performance for the Bank's loan production, with newly approved loans reaching RON 13.6 billion, up by 19% compared to 2016. Almost 60% of these amounts went to local entrepreneurs and big companies (up by 21% yoy), via an array of quality financial solutions for investments, working capital, trade finance, big projects or loans granted in favorable conditions, in cooperation with the EIF.

Personal and housing loans disbursed to individuals during 2017 have also grown significantly, by 15%, to RON 4.7 billion. We are especially pleased with the mortgage loans originations this year, which doubled compared with 2016, on the background of rising housing market, our focused approach and a more stable legislative environment.

In an economy where private consumption is the chief driver behind the GDP advance, we acknowledge the importance of setting the grounds for a solid and sustainable future growth. In this context, offering simple and effective banking solutions to legal entities is essential in our view and we have taken steps to achieve loan growth in a balanced and responsible way:

- Our legal entities loan portfolio expanded by 10%, with similar growth pace shown by Corporate and SME customers. New volumes greater yoy by 21% for Corporate and by 20% for SMEs stood at the heart of this noteworthy development. Also, our history of highly successful partnerships with the EIF continued in 2017 with the launching of two new programs meant to facilitate the access to financing for small and medium-sized companies: Cosme and SME initiative.
- Deposits from customers once again showed strong, double-digit growth pace (+13%), helped primarily by Retail current accounts (+25% yoy). Deciding factors in this respect are the growth in average wages by some 15% in the economy, as well as our strategy aimed towards "income clients", via a highly advantageous offer of current account packages, with low costs and a wide array of services included. Furthermore, in a market dominated until recently by very low interest rates, our clients know their money is in good hands at all times and this places us in a good position to continue developing our business on sound foundations.

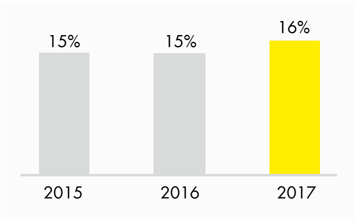
Summary of Raiffeisen Group's Results in Romania

In 2017, our customer satisfaction and digital capabilities improved, highlighting our ability to provide top quality banking services.

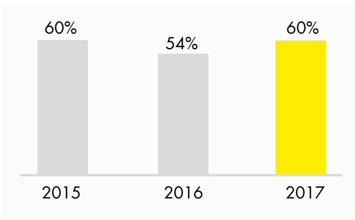
PERFORMANCE FOCUS

Financial strength and solid foundations allow us to consistently deliver attractive returns to our shareholders. Adherence to our prudent risk strategy and the benign economic background brought a 25% improvement in underlying[1] risk costs in 2017.

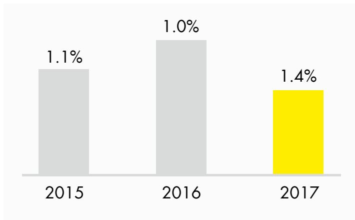
ROE[2]



CIR[3]

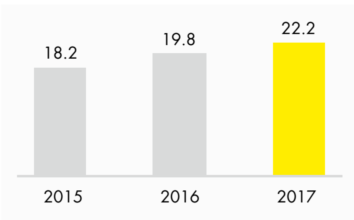


Risk charge[4]

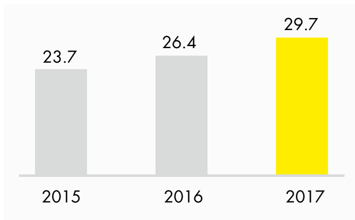


Organic growth is the centerpiece of our strategy. We expanded our business in a sustainable and responsible way and we are committed to further doing so.

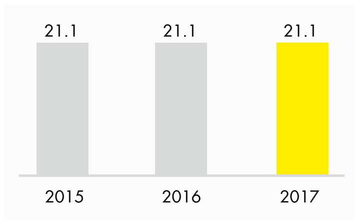
Loans, net (RON bn)[5]



Deposits (RON bn)

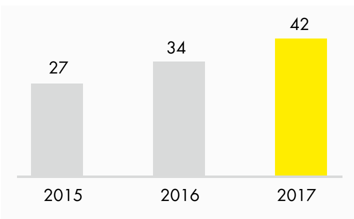


Clients (mn)

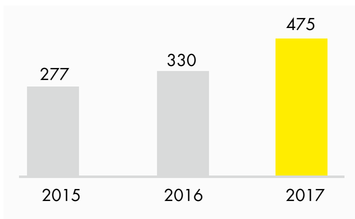


Customer satisfaction and our digital capabilities go hand in hand. Both measures improved sensibly in 2017, highlighting our ability and drive to provide top quality banking services.

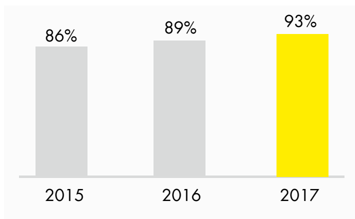
NPS PI[6]



Alternative channels users (ths)[7]



Electronic payments (% of total)



[1] Underlying carves out the impact of non-recurring events in both periods
[2] Net profit divided by the average value for Equity in the period, without the profit of the current year
[3] Reported operating expenses divided by total operating income
[4] Provisions for impairment losses divided by total average assets
[5] Loans, net of provisions
[6] Net promoter score for PI, yearly average
[7] Clients with login in the Raiffeisen mobile or online application during the last month

At the end of 2017, Raiffeisen Bank had 5,189 active FTE employees, compared to 5,236 in 2016. The average age of Bank's employees remained unchanged – 37. Employee learning and development continued to be our constant preoccupations and important human resources strategic directions.

TRAINING AND DEVELOPMENT PROGRAMS

The training and development programs we provide to our employees aim to directly contribute to their individual performance, as well as their teams' performance – and consequently, the performance of the entire organization.

In 2017 we engaged in the continuation or launching of training programs derived from our strategy, aligned to our organizational culture. They focused on the development of both functional and leadership capabilities, and also on the increase in our employees' engagement. The types of programs we delivered were addressed to all our employees, either from the business segments or the support areas, in order to develop Raiffeisen Bank team's professional competencies.

The learning and development methods used were in line with the European tendencies and facilitated access to a diverse range of programs, from technical trainings and transversal initiatives for competencies development to certifications, conferences or workshops. In designing and delivering the training programs, the Bank wanted to reach it own learning and training objectives by offering high quality content and up-to-date approach for a large range of topics. These programs were implemented both with internal training specialists and with external providers.

Raiffeisen Bank continued to improve training practices and support technologies. Experiential learning, which develops an environment conducive to lifelong learning through personal involvement and self-discovery, had a positive impact on the employees of the Bank. Customized learning experiences through blended learning combined course sessions, involving the participation of the attendees, with self-study that uses a specially designed online platform. Gamification is another learning model, which involves the use of game-specific elements and rules but placed in business contexts – the goal being to achieve certain objectives with more involved participants in the process. Gamification is an effective way to improve customer interaction, sales, etc.
As for the network branches, in 2017 we redesigned and continued the learning program for new hires, aligned to the branch activity specific. This included induction, product, operations, credit, and client relationship trainings and combined alternative learning methods, suited to the current business context and aligned with the new trends and technologies.

For the headquarter employees, we improved the induction program aiming to facilitate the integration of new hires in the organization and we continued the professional and leadership capabilities development programs.

We extended Raiffeisen Banking University, an employee training program with a unique approach: we identify colleagues who, based on their expertise, are able to develop and deliver training sessions for other colleagues interested to professionally improve and who are able to share practical knowledge. In 2017, 50 internal trainers joined the program, and 132 training sessions took place, attended by 1,900 participants. Another aspect worth highlighting is that Raiffeisen Banking University offers us the opportunity to officially acknowledge our Bank's own experts in various banking related fields.

RSTYLE, OUR WELL-BEING PROGRAM

Launched in 2013, RStyle is one of the most popular employee programs. This comprehensive well-being program promotes and supports, through various activities, an optimum work-personal life balance. The program includes workshops and events related to sports, nutrition, health, personal development, parenting – topics of interest to Raiffeisen team members. As more and more people are aware of the importance of a balanced lifestyle, the program attracted a larger number of participants in 2017, when the umbrella-concept was related to diversity and innovation. Customized local events such as "YOU make RStyle" doubled their number, over 100 catalog events were launched and over 20 new programs were developed and implemented. The RStyle initial pillars (RSport, RFood, RParenting, DevelopR, TogetheR, TravelR) were accompanied in 2017 by 4 innovative initiatives: RStyle Family Pack, Club

RStyle, Health Marathon Campaign and Stress-Out. The new events included the Debate Club – The Beauty of Disagreement or Evolution through Controversy, Young Designers – 4 workshops dedicated to discovering and developing native abilities of children (13-17 years), Insid3Out – Mindfulness in the office, Sleep better – a program that provided employees with practical ways to disconnect themselves from work-related problems while out of office and practices at hand to get a better sleep. Also, seven prevention campaigns were organized as part of RStyle, which brought together over 700 participants: Kynetogym in the office, 2nd Opinion Dentist, Oxidative stress effects and the myth of detoxification, I chose not to have diabetes, Skin health, Allergy, and Immunology.

Through RStyle, Raiffeisen Bank proves to be aware of the influences that a competitive professional environment under permanent pressure has on its employees, and that it takes into account all the important things in employees' lives: health, personal development, hobbies, childcare and education, etc. RStyle offers to employees professional solutions at hand, helping them to improve their health, self-knowledge and personal development, and to improve their professional relationships, impacting everyday life.

HUMAN RESOURCES – BUSINESS PARTNERSHIP

Performance Management

Raiffeisen Bank continues to extend the implementation within retail network of the new performance management system, consisting of a new structure of setting the objectives, with focus on feedback and its increased frequency, with ratings expressing a holistic approach, that includes the objectives and values area, as well as

RStyle 2017 in numbers

4.900 attendances

3.000 unique attendants (Head Office 37%, Network 63%)

140 events implemented (80 „YOU make RStyle", 60 Open)

with the recognition of exceptional behaviors associated with values and the rewarding of such behaviors.

In order to put into practice these performance management principles we have created a code of conduct that defines the employee behavior.

With the support of an external consultant, the Bank has reviewed the behavioral standards for all sales staff and begun their implementation in the retail network.

Employees Opinion Survey
The Bank ran in 2017 a new yearly edition of the study for investigating the level of engagement and efficiency, EOS, in collaboration with the agreed company at the Group level.

The novelty consisted in the improvement of the supplementary questions section, especially designed for collecting data related to the perceptions on leadership skills for all management levels.

Also, the area dealing with the research of the performance management field was re-designed so that it was aligned to the new performance management system.

Digital World
In 2017, part of the business – human resources partnership implemented in every retail group, digital guides were selected with the aim of influencing, promoting and directing customers to the digital world, by using the special tools developed by the Bank for this purpose, and also guiding and offering support to all colleagues in this respect.

Mortgage Guides
The Mortgage loan area was in 2017 proactively supported by a group of Mortgage guides. Their aim was to boost this product sale by providing support to their colleagues, and to increase the overall product attractiveness. The guides were selected by joint teams (business – human resources), and activated in areas with significant business potential.

Stay-In Interviews
A transversal approach run in the Head Office was the Stay-In interviews campaign. Its aim was to collect data from the interviewees about things they like in general and about their work, and also about improvement areas. Taking into account that the work environment is important and that each of us is unique, the campaign revealed the common and distinctive motivational and disincentive factors for our colleagues.

Recruitment
In 2017, the recruitment team completed over 1,150 recruitment and selection processes, by identifying suitable candidates within and outside the organization.

Youth Programs
Throughout 2017, we increased the number of young people involved in our talent-enhancing, skills training programs.

We organized a new edition of *Raiffeisen IT Trainee,* a program already at the 7th edition, where 12 young participants were selected. Hired as Raiffeisen Bank full-time employees, they benefited from the appropriate framework and support of the IT colleagues, in order to familiarize themselves with the activity and the top technologies used by the Solutions Development, Testing, Data Management, and IT Service Operations departments. Similar to the graduates of the previous editions, and depending on the results obtained during the program, they had the opportunity to be invited to occupy various positions within the participating departments, where they previously acted as trainees. The 2017 edition proved to be a success, all 12 trainees being taken to vacant positions in the organization.

In 2017 we continued the program dedicated to young graduates who want to start a career in banking. *Raiffeisen Banker 2 Be,* designed as a recruitment channel for front office positions, was extended in order to also cover other areas outside Bucharest Retail Region. Along the year, 40 young people were trained, selected and integrated in our organization, in the front office area.

Having the same idea in mind, we also organized a new edition of *Raiffeisen Management Trainee.* 10 young people were selected out of 350 applicants. For 12 months, they were involved in projects, learned and experienced new things in important areas of the bank such as Balance sheet and portfolio management, Corporate sales, Risk, and so on. At the end of the trainee stage, the attendees had the opportunity to be hired on vacant positions into selected departments.

The Bank continued to provide internships, both in the Head Office and throughout our national network. The internship program targeted students and master students interested to get accustomed with the spirit and culture of an elite multinational organization. The internship spread over 2 to 4 weeks, when they were exposed to the activities workflow of a banking entity and acquired practical experience, useful for future employment. In 2017, Raiffeisen Bank provided internships to over 400 students.

Achieving the goals of an organization involves identifying and assuming multiple risks. Risk management is a process of identifying, analyzing and responding to the potential risks of the organization. The Raiffeisen Group addresses risk in a prudent manner, consistent with its long-term development goals.

The risk management function is independent of the commercial one and focuses on managing the following risks: credit risk, market risk, liquidity risk, operational risk and reputational risk. The management body is responsible for the monitoring and implementing the Bank's risk management framework. To this end, it has set up the Assets & Liabilities Committee (ALCO), the Credit Committee, the Problem Loans Committee, and the Risk Committee. They regularly report to the Board of Directors and are responsible for developing and monitoring the Bank's risk management policies in the specified areas.

Raiffeisen Bank's risk management policies are established to identify and analyze the risks, to which the Bank is exposed, to set appropriate risk and control limits, and to monitor risks and compliance with risk limits. Risk management policies and systems are reviewed periodically to reflect changes in market conditions, products and services offered.

Starting with January 2014, following the issuance and enforcement of the EU Directive and Regulation regarding Basel III implementation, the Bank reports to the National Bank of Romania (NBR) the Leverage Ratio, the Liquidity Cover Ratio (LCR) and Net Stable Funding Ratio (NSFR). The Bank also completed in 2014 the implementation and reporting of the European Banking Authority (EBA) standards concerning forbearance and non-performing exposures. The NBR and EBA regulations on recovery and resolution are applied by the Bank starting from 2015.

Throughout 2017, the Bank has taken the necessary actions to ensure the appropriate implementation of IFRS9 requirements starting with 2018. In the current context of a complex regulatory framework, the Bank continues to work on adapting its IT architecture, as well as its risk policies and procedures to the new legislative requirements and to the market developments, the Bank will intensify these efforts in the following years.

CREDIT RISK

Credit risk analysis and assessment functions for all activity segments are fully centralized and currently represent a single point of contact for the entire Bank. Credit risk activity is organized by industries and specialized by customer segments. This allows a quick reaction to any major change in the micro or macroeconomic environment of Raiffeisen Bank or its customers.

Starting with 2009, the Bank has implemented a standardized early warning system in order to monitor certain categories of non-retail borrowing customers and retail borrowing customers. This system monitors, on a monthly basis, the selected portfolio in order to identify early warning signs and explain them. Based on these indicators, the customer portfolio is split into distinct risk groups, and actions or strategies are proposed for the customers identifies as problematic.

Raiffeisen Bank S.A. received NBR's approval to determine the capital requirement for credit risk according to internal rating models approach (IRB), starting with 1 July 2009. As regards the retail portfolio, Raiffeisen Bank has received the approval of the NBR to determine the capital requirement for credit risk according to the Advanced Internal Ratings Based Model (AIRB), starting with 1 December 2013.

MARKET RISK

Regarding the market risk, the Bank is currently using the standard approach for capital requirement calculation. Market risk management is currently conducted through a system of market risk limits and warning indicators that apply to the Bank's exposure to the interest rate risk associated with both the trading book and non-trading book activities, to risk currency and other market risks subtypes. Close and frequent monitoring of these limits and warning indicators ensures a prudent market risk profile for Raiffeisen Bank.

LIQUIDITY RISK

The Directorate defines the liquidity risk management strategy according to the recommendations made by the units responsible for liquidity and funding management, in cooperation with the area responsible for monitoring and controlling of liquidity risk. The main instruments used for liquidity risk management and control are: the liquidity gap report, the liquidity scorecard, the statutory liquidity ratio, the early warning system, the regulatory liquidity coverage ratio (LCR), the internal stress test.

OPERATIONAL RISK

Staring with 1 January 2010, Raiffeisen Bank determines and reports the capital requirement for operational risk using the standard approach based on the National Bank of Romania's approval from November 2009.

This basis for this approval was the operational risk management framework developed by the Bank by implementing the operational risk management model based on the three lines of defense model and by defining and using advanced instruments such as the operational risk incidents database, operational risk indicators, risk scenarios, risk assessment matrix. The operational risk management framework is continuously improved, being aligned with the operational risk management framework implemented at Group level. The Group received ECB approval for using the Advance Measurement Approach.

REPUTATIONAL RISK

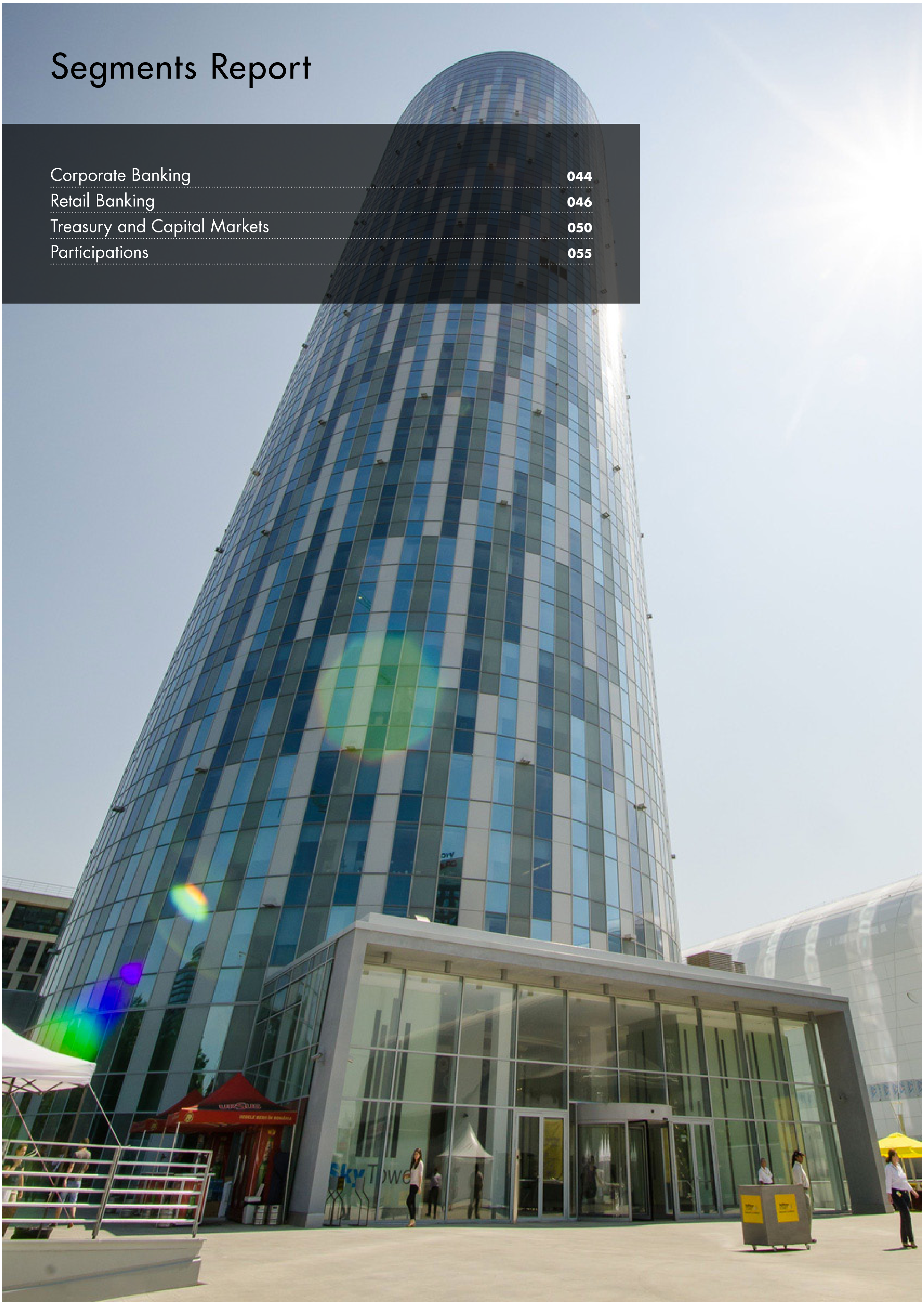
Within the Bank, the reputational risk management is structured on the following directions: regulating the area of activity, and identifying, measuring, monitoring and managing reputational risk.
In order to implement the risk strategy and objectives for reputational risk, the Bank defined and approved the Reputational Risk Policy, which outlines the roles and responsabilities regarding reputational risk, and also the tools used to ensure a proper management and control of this risk.

The reputational risk monitoring instruments implemented are:
- specific reputational risk indicators – i.e., indicators that measure the perception and behavior of the customers number of complaints; indicators that measure the public perception in the mass-media, relationship with the state authorities
- collecting and reporting reputational risk events that are managed according to specific flows and mechanisms
- assessment of reputational risk using risk scenarios
- assessment of reputational risk as part of the Bank's risk profile.

Reputational risk is a priority for the Bank, and therefore there is a continuing preoccupation to improve the management process, especially in terms of of raising all the employees' level of awareness concerning reputational risk through specialized training programs.

Segments Report

Corporate Banking 044
Retail Banking 046
Treasury and Capital Markets 050
Participations 055



Corporate Banking

For the Corporate Division, developing long-term relationships with the corporate customers is an essential part of our general strategy, and 2017 proved a success in this regard. The results confirmed the passed years efforts to implement the best recommendations received from our partners in terms of service delivered to the clients. The 10% increase of the portfolio in terms of Assets net of risk provisions testifies for the commitment of the Division to support the business environment.

10%

was the increase of the Corporate Division portfolio in terms of Assets net of risk provisions and 1% in terms of Liabilities compared to the previous year.

The main directions followed in the financial year 2017 were:

- Focus on the holistic approach towards the ecosystems formed around corporate customers, addressing all the stakeholders (e.g. suppliers, clients, employees, shareholders, key executives, etc.);
- Continue implementation of business development programs (e.g. financial development, human resources management, research, operational processes optimization) for the customers, especially on Mid Market segment. The events structured under the Raiffeisen Catalizator platform had also a strong networking component for best practice sharing;
- Boost the efficiency program through:
  - Continued migration to electronic channels and/or centralization of expertise;
  - Structured sales process (e.g. top-up volumes, pre-approved amounts campaigns);
  - Upgrade IT infrastructure for faster and more reliable response to client's needs.
- Ensure compliance with increased regulatory requirements – complying with local, international and group requirements such as Basel III, FATCA, KYC, etc.

Large Corporates segment focused on delivering tailor-made development programs for clients, categorized on industry expertise developed from past experience. Focusing on regional coverage of the clients, Mid Market segment continued its efforts to develop the business community by encouraging collaboration and best practice sharing. A special attention was offered to the group clients, where Raiffeisen Bank Romania respected its status of focus country for the Raiffeisen Group.

Financing structures sustained the sales effort through customized solutions for each partner and received high appreciation from the clients as updated to current macroeconomic characteristics. The Bank is undergoing a constant effort to improve its financing solutions and to that end it is worth mentioning the efforts and resources allocated for factoring.

Raiffeisen Bank continued to be an active member in the syndicated finance market, along with strong involvement in project finance and M&A transactions. The portfolio increased in 2017 with several big tickets in industries such as real estate and retail.

Partnerships with institutional investors (EIB, EIF, EBRD) were continued and conferred an economic advantage to the Bank-client relationship.
On Mid Market segment these partnerships were very important as they facilitated the access to finance for the SME clients. It is worth mentioning the COSME and SME Programs, where Raiffeisen Bank received the highest share of funds in the market.

Important successes were also registered by transactional banking, with online payments share well above the 90% threshold. As a leading entity in the banking industry, the Bank was selected to test the electronic settlement of debt instruments (cheques and promissory notes). The project was highly appreciated by the clients, with many of them enrolling as early adopters, and with the new process being under analysis for implementation by other banks as well. Significant investments were made for improvement of cash operations implementing multi-functional machines, offering convenient and extended access to cash services.

Internal processes continued to be improved in 2017 following three main approaches: simplification, reduction of the number of required documents and reutilization of internal and public available

9%

lower was the profit in 2017 compared to the previous year, but still testifies to the relevant contributor role of the Corporate Division to the Bank results.

information. Sustaining the internal processes, the IT infrastructure also received significant improvements and updates. The entire Division can now benefit from mobility advantages, delivering internal knowledge and expertise faster and easier to our customers. It is also worth mentioning the successful implementation of Land Registry online interrogations, which eliminated the need for the physical certificates and reduced the time for implementation of lending facilities. The final target is to develop a fast and lean service process sustained by the most modern IT infrastructure.

Compliance with national and international regulation is an important part of the Corporate Division Strategy in order to provide our clients with the highest level of confidence and security when using the Bank services. In 2017, the Bank centralized the entire process and specialized its employees in dealing with even the most difficult and complex cases. At the same time, the process was optimized to reduce the bureaucratic burden, albeit the increased regulatory requirements. The Bank is committed to keep its level of compliance with the legislation in place in order to provide the best protection and security to its business ecosystem. In terms of financial results, Corporate Division increased its portfolio with 10% in terms of Assets net of risk provisions and 1% in terms of Liabilities compared to previous year, representing a sound base for future development. The Assets growth was fueled by new loan production, with significant results on the second half of the year. Another important contribution came from a portfolio acquisition that constituted an opportunity for the Bank.

Margin compression coming from the over liquid environment affected the top line result (-3% yoy). Opex was slightly higher than last year results (2%) with impact from internal development efforts from previous years. Risk costs registered a decrease compared with last year (-2%) accompanied also by a significant positive impact in NPL ratio (-559 bps) coming from a debt sale operation and clean up efforts.
The bottom line result is lower with 9% than the previous year, but still testifies to the relevant contributor role of the Corporate Division to the Bank results.

Network optimization was one of our priorities in 2017, Raiffeisen Bank reaching a total of 451 branches by the end of the year, of which 94 were in Bucharest and Ilfov. In order to meet market and customer expectations, we have expanded the number of MFMs, and our sales force has focused on promoting electronic hannels.

With 35%

increased the number of multifunctional ATMs (MFMs) in the Raiffeisen Bank network.

Our clients' behavior is changing, and Raiffeisen Bank is at the forefront of Romanian financial and banking institutions that are implementing new models and technologies in order to adapt fast to their expectations. Multifunctional ATMs (MFMs) are increasingly used, so the Bank has expanded their number up to 189 (174 of them being located in agencies). With the help of MFMs, customers can quickly and easily operate cash deposit and withdraw transactions in lei, pay bills in lei, conduct foreign exchange operations from EUR or USD in lei or receive money via Western Union.

INCREASING THE QUALITY OF SERVICES, PART OF THE RAIFFEISEN BANK STRATEGY

Raiffeisen Bank puts into practice a series of initiatives aiming to simplify as much as possible access to its products and services, and at the same time to be close to its customers with the most relevant offers.
For this purpose, in 2017, the number of mobile offices organized at the employers' premises increased significantly. This initiative was well received by company employees because it was convenient, helped them saving time and getting customized advice. A financial education program was also implemented within the respective companies, whose purpose was to help customers accurately understand how Bank's products and services work, what are their benefits, what are the associated risks and how they can be managed.

The sales force has been more focused on the promotion of electronic channels and, consequently, the use of Smart Mobile and multifunctional ATMs has increased significantly. These services save time in comparison with counter transactions, and are more convenient when they want to find more information about their accounts, buy new products or make 24/7 transactions – at the same time, benefiting from discounted costs, and also the comfort of not going to a Bank's physical branch.

In 2017, the number of complaints registered in Raiffeisen Bank continued to grow slightly compared to the previous year, keeping the same percentage growth (+14%) registered between 2015 and 2016. Customer opinions allowed us to clarify and remedy the situations they encountered, 88% of the resolutions being in favor of the clients, a slight increase of the customer satisfaction regarding the complaints management process being noticed.

RESULTS COMPLAINTS	2012	2013	2014	2015	2016	2017
Complaints number	36,327	45,517	51,047	59,915	68,169	77,716
Positive resolutions	71%	77%	75%	82%	84%	88%
Loyalty customers with complaints	98%	96%	97%	98%	98%	98%
Satisfaction with complaint process (survey scale 1-5: 1 = very unhappy, 5 = very happy)	3.3	3.3	3.2	3.1	3.2	3.3

LEADERS ON THE CREDIT CARD MARKET

In 2017, Raiffeisen Bank reached 472,000 credit cards, up 7% over the previous year, which meant we consolidated our position as a leader in the credit card market in Romania. We continued to come up with innovative proposals for our customers, launching a new co-branding card, this time with eMAG, the most important online retailer in Romania. This is the second co-brand card we launched after the Raiffeisen Bank-Vodafone card issued in 2004.

FOCUS ON PRIVATE INDIVIDUALS

In 2017 Raiffeisen Bank celebrated the 20th anniversary on the Romanian market. The Bank rewarded its clients with an anniversary campaign on real estate loans, offering a 20% discount on the standard mortgage interest on the purchase of a home. The Bank also supported several significant events, in order to be closer to its clients, such as the George Enescu International Festival, TIFF, Sibiu International Theater Festival, Bucharest Technology Week, and Neversea.

472,000

credit cards, up 7% over the previous year, meant we consolidated our position as a leader on the Romanian credit card market.

In line with its customer orientation, Raiffeisen Bank has improved its strategy of addressing its Private Individual customers, paying more attention to their values and motivations, attitudes and life plans, in order to increase customer preference, satisfaction and loyalty on medium and long term. Thus, in line with the 2020 growth strategy, the Bank focused on the acquisition of new customers, digitization and lending.

The current account bundles launched at the end of 2016 increased the Bank attractiveness among new clients and intensified migration of the existing ones to simpler and more efficient banking. The bundles consist of a relevant range of transactional products and services with zero costs and preferential rates for savings, credit cards and overdrafts for clients cashing their income in the attached current account.

The youngsters continued to represent an important customer segment for Raiffeisen Bank. For those aged between 18 and 25, the Bank offered a dedicated, zero-cost current account bundle. The Bank also intensified its presence in 9 universities across the country and engaged the youngsters through a re-designed communication and gamification platform, www.studentbank.ro, with guaranteed prizes.

In 2017, Premium customer satisfaction and significant growth in Premium Banking business volumes confirmed the robust strategy of recent years in this segment of customers. Raiffeisen Bank continued its efforts to strengthen the relationship with its current clients and at the same time succeeded in developing relevant interactions with new clients. Through dedicated campaigns and events, the Bank has managed to offer memorable experiences to its Premium customers.

At the same time, the Bank has continued to strengthen its loans portfolio – both secured and unsecured – focusing on the acquisition area on a simple and fast process for customers. In the light of the updated legislative framework, Raiffeisen Bank redefined its mortgage loans offering strategy, also relying on an easy flow and solutions designed to provide comfort to customers throughout the loan duration, such as fixed interest over a period 7 years from the initial moment. The Bank has thus managed to double the new loan volumes compared to the previous year.

SUSTAINED EFFORTS FOR SERVICES DIGITIZATION

In 2017, the Bank continued the digital transformation process. One of the objectives was to move the cashier transactions inside the branch to the electronic environment where, for all transactions through digital channels – Mobile Banking and Internet Banking – we registered an increase of more than 30%.
Our Mobile Banking application was the star this year as well, with a 98% increase in the number of active users over the previous year and approximately 400,000 downloads for the store, up 75% over the previous year. Our digital channel users (Raiffeisen Online and Smart Mobile) are increasingly active: we recorded almost 50 million authentications on all digital channels in 2017, nearly 80% more than in 2016.

When it comes to technology, we were the first on the market that introduced the possibility to authenticate in the Mobile Banking application through Face ID for iPhone X users, and we also facilitated the access in the application through touch ID for all the users that have a device compatible with this functionality (iOS/ Android).

With regard to digital sales, 5% of the total personal loans sales were made through digital channels and starting in 2017 our clients can purchase a credit card through our Internet Banking application.

98%
is the percentage with which the number of active users of the Mobile Banking service increased in 2017 compared to the previous year.

"FRIEDRICH WILHELM RAIFFEISEN" SEGMENT (FWR)

FWR was designated in 2017, for the second consecutive year, "The Best Private Banking Service in Romania" by three of the most prestigious international financial publications: Euromoney, Global Finance, The Banker & Professional Wealth Management. These are the most important distinctions in this field and it is for the first time in Romania when a local Private Banking service receives such recognition.

Raiffeisen Bank's Private Banking Division offers a range of exclusive services and products to customers with consistent wealth: financial consulting, personalized solutions, access to financial instruments and related services. FWR records a total of 1,390 customers (13% more than in 2016), and asset management in over € 1.2 billion in Romania.

SMALL AND MEDIUM-SIZED ENTERPRISES (SMES)

Considering the characteristics of the Romanian market, the Small and Medium-sized Enterprises segment in Raiffeisen Bank includes SMEs with private capital and an annual turnover of up to EUR 5 million, including Professionals and entities such as foundations and associations (Liberal Professions). The Bank's strategy for this client segment aims to position itself as a "home bank", based on a clear and transparent communication, understanding clients' specific business needs and providing the most appropriate financial solutions, through a wide range of alternative channels and advice of dedicated staff.

Raiffeisen Bank's further segmentation of SME clients into companies with annual group turnover of up to EUR 1 million and companies with annual group sales between EUR 1 and 5 million is designed to provide a customized approach based on their profile activity, size and financial needs of the respective customers. Also for client segmentation purposes, the Bank applies a behavioral model that supports more in-depth understanding of the customer profile, needs, values and expectations related to bank interaction.
Based on this, a range of products and services are permanently tailored to the specific needs of various entrepreneurs' sub-categories.

In terms of the service model perspective, Raiffeisen Bank consultants (SME Relationship Managers and Branch managers) provide financial advisory and dedicated assistance to customers in identifying the most appropriate products and financial solutions to best support their development plans and taking informed decisions in this respect.

Besides the extensive branch network units, SMEs can benefit from a positive and consistent client experience across a wide range of alternative channels through which they can access Bank's products and services: via mobile banking (Smart Mobile), Internet Banking (Raiffeisen Online) or phone banking (Raiffeisen Direct and the distance interaction solution – Interactive Voice Response).

The Bank's product offer is permanently adapted to the clients' requirements and business development level, a recent example being the introduction of an extremely competitive operational "all-inclusive" package for smaller companies, helping them to maximize their bank operational costs.

On the operational side, Digital solutions continue to be a priority, efforts focusing on educating customers and migrating them to alternative channels.
Thus, Raiffeisen Online and Smart Mobile represent strategic applications designed to enhance customer experience and ensure availability of services as quickly as possibly, anytime, anywhere. As in the previous year, the digital strategy focused on the nationwide expansion of multifunctional machines (MFMs), the fleet covering 166 locations and bringing 53% increase in the relevant transactions volume and 20% increase in the average transactions per MFM.

The SME loan portfolio continued to grow steadily by 5.3%, reaching EUR 405.5 million in December 2017, despite the consolidation of the overall lending market and due also to the rather conservative borrowing appetite, especially among smaller entrepreneurs. Investment appetite requiring long-term financing remained modest compared to working capital needs among SMEs.

The success of the first financing programs conducted with the European Investment Fund (EIF), finalized at the end of 2016, which provided the Bank with the leading position on the Romanian market for this type of financing and the acquired expertise, led to the implementation of two new major programs. The Bank signed in April 2017 a new agreement with EIF for an amount of EUR 177 million, under the EU program for the Competitiveness of Small and Medium-sized Enterprises (COSME), aimed to improve SMEs access to finance and encouraging the competitiveness of European enterprises.

Sources attracted on the SME segment exceeded in December 2017 **EUR 1.15 billion.**

A month later, the Bank signed the first SME Initiative partnership in Romania with EIF, worth EUR 300 million.
The SME Initiative is a joint financial instrument of the EC and the EIB Group (the European Investment Bank and European Investment Fund) which aims to stimulate SME financing by providing partial risk cover for SME loan portfolios of originating financial institutions.
Both initiatives aim to stimulate customer access to finance through flexible collateral alternatives, addressing both new and existing customers.

Liabilities' balance for SME clients exceeded EUR 1.15 billion as of December 2017, almost 20% up vs. 2016, reflecting clients' confidence in Raiffeisen Bank.

A series of business seminars with representative guest speakers at national level and various topics of interest (financing solutions, taxation, SME programs) were organized in major regional centers – Bucharest, Galați, Piatra Neamț, Craiova, Oradea. They were complemented by several micro-marketing events in a new format, organized at the level of the Bank's retail groups.

Small and medium-sized enterprises continue to be a strategic segment for Raiffeisen Bank, the company aiming to support this type of customers with professional products and services. The Bank places a strong emphasis on transparent communication, a simplified offer based on specific requirements and the creation of a positive experience in any interaction, as well as on the intensification of the use of digital channels.

Treasury and Capital Markets

2017 was a turning point in terms of the National Bank of Romania's monetary policy. Market liquidity and currency exchange rates volatility returned to the local market. Moreover, the market encountered the first signs related with a possible rate hike by the Romanian Central Bank, which took shape in January 2018, based on increased inflation and also on a major shift in the money market liquidity on the local market.

Even if over-liquidity was considered to be normal in the past years, the end of 2017 presented a new normality – low liquidity. This led to an upward pressure in interest rates from 0% to 2-3% on the inter-bank market, which further added to increased currency rate volatility.

The international market also put pressure on the local market, due to general upward direction in interest rates in the global markets, and also because of internal political uncertainties. In order to assist our customers in navigating these turbulent times in the markets, our colleagues from Capital Market Sales offered tailor-made solutions in terms of hedging both interest rate and currency risk exposure.

Another highlight of the year was the fact that Raiffeisen remained one of the key Primary Dealers, which help intermediate auctions of Romanian Treasury Securities for the Ministry of Finance for both local and international customers. Best execution and shared expertise were the main assets in our relationships with both clients and Bank partners.

Our commitment to the customers in providing financial solutions for them and ensuring a rewarding experience remain our core strategy. We are also committed to the continued development of the local Romanian Capital Markets as exhibited by our presence in various working groups with other international financial institutions and local market participants.

ECONOMIC AND EQUITY RESEARCH

The Economic and Sectorial Research Directorate produces and disseminates analyses and reports that cover main developments in Romanian economy and financial markets. Macroeconomic research is aimed to provide a comprehensive overview of the most recent developments in the economy (with focus on GDP, external sector, inflation, interest rates, exchange rate) and an outlook for the following period. Economic research is also performed for the key sectors of the economy (companies and households) in order to identify structural characteristics of these sectors, the most recent tendencies in their activity, and their potential in terms of banking activity.

Applied macroeconomic research activity is carried out by a professional team using quantitative techniques and publicly and internal available databases. In 2017, the major part of the macroeconomic analyses was disseminated outside the Bank as part of the publications issued by Raiffeisen RESEARCH. Key developments in the real sector and financial markets were timely covered in daily and weekly reports (Daily Market Report, CEE Daily, CEE Weekly). Comprehensive assessment of major trends in the Romanian economy and financial markets were provided in the monthly report Romania – Economic Overview. The quarterly Central & Eastern European Strategy report produced by Raiffeisen RESEARCH in Vienna provided useful insights regarding past and potential developments in all the economies where the Raiffeisen Bank International is present. Moreover, the economic and sectorial research was a key input for Bank's business lines, helping them to shape current and strategic decisions and to assess the consequences of different risk scenarios.

At the same time, in 2017 the equity research team offered comprehensive research coverage of the Romanian stock market, actively covering 17 companies, including most of the companies in the Romanian BET index. Equity research reports were disseminated both locally, as well as part of the publications issued by Raiffeisen Centrobank. Among the key equity research products disseminated to the clients there were the company reports containing the analysts' views on the covered stocks.

As the team aims to keep clients informed, relevant news were sent daily before start of trading or whenever market moving information came along during the day. Quarterly financial reporting by covered companies was preceded by previews, while first impression reports followed shortly after the announcement of the results. Analysts kept in contact with more than 50 institutional investors who are actively pursuing the local stock market. The research team participated in projects side by side with the Investment Banking department, taking care to fully comply with the independence and non-interference principles between the corporate finance and research activities. The analysts apply fundamental analysis and use an array of methods and techniques to arrive at a target price and thus a recommendation for the companies under coverage.

FINANCIAL INSTITUTIONS & GSS

Financial Institutions & Group Securities Service Directorate (FI&GSS) is responsible for the relationships that Raiffeisen Bank has with various bank and non-bank financial institutions, both domesticially and abroad. These include commercial banks, investment banks, insurance companies, leasing companies (having a financial group as the main shareholder), investment funds, pension funds, brokerage companies, finance companies (mortgage or consumer finance), and supranationals.

FI&GSS is also responsible for custody product and depository for investment funds and pension funds privately managed, respectively.

Our main products that registered significant increases from an income point of view have been trade finance, custody and fund administration (depository), equity trading, and treasury sales.

Starting 2017, lending to non-bank financial institutions was one of the areas that were in focus, given our strong position on the local market. Activity from both our banking clients, banks and non-banks, continued to grow in terms of volumes, together with new counterparties which have opened new settlement accounts for local currency in our books in 2017. This once again was due to the Bank's strong position on the local markets and strength of our liquidity position.

In support of the Bank's efforts to serve our customers growing needs in the area of correspondent banking, our global network has been extended to currently over 800 counterparties.

The Securities Services Department – GSS is the business line for custody and depositary services for investment and pension funds. It is also responsible for the distribution, information and payment agent services for external investment funds, special settlement in relation to the Bucharest Stock Exchange Central Depository and Sibex Depository, as well as for the paying agent activity available for bond issuers.

The depository and custody activities were performed by the following departments:

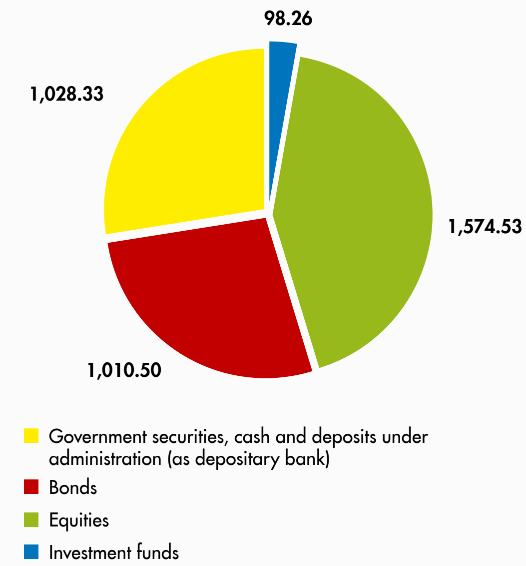
- Securities Services – GSS Department, responsible for processing the custody operations, as well as for support activities for custody and depository products;
- Treasury and Capital Market Operations Department, Depositary Operations Group, responsible for processing the depositary activities for investment and pension funds.

At the end of 2017, the value of the assets for which Raiffeisen Bank performs fund administration and custody services was of EUR 3.71 billion.

The targeted strategy in relation to custody and depository activities was focused on achieving complete solutions on the Romanian market, based on the following objectives:

- Consolidation of the paying agent services on the local market and shaping new solutions for external participants (brokers and custodians) meant to simplify the access to the market;
- Expansion and benefit of the Raiffeisen Bank International solution through which the access to the markets in the region is ensured based on a single contract and through a unique exposure at group level in relation to the client;
- Simplification of the operational activity through the automation of certain processes;
- Configuration of the evaluation methods, recording and reporting, which will allow customizing the client's requests, with regards to the depository activity.

Assets structure 2017 (euro mln.)



BALANCE SHEET AND PORTFOLIO MANAGEMENT

The Balance Sheet and Portfolio Management Directorate is responsible for the strategic management of the Bank's assets and liabilities with the goal of ensuring a stable net interest income, while maintaining a sustainable medium and long-term liquidity and capital position of the Bank. To this end, the Directorate is comprised of three interrelated teams: Asset and Liability Management (ALM), Liquidity Portfolio Management, and Funding Management.

Treasury and Capital markets

The ALM team is responsible for the dynamic balance sheet management through an ongoing process of formulating, implementing, monitoring the strategies for the Bank's balance sheet approved in the Asset and Liability Management Committee and overseen by the Management Board. The unit manages the strategic interest rate position, the main objective being to maximize the economic value of the banking book and to generate adequate and stable earnings within the approved risk appetite boundaries.

The management of the balance sheet considers both the liquidity and interest rate perspective, and is performed by using an ever-growing and improving set of tools, including an effective system of internal funds transfer pricing, as well as a dedicated ALM application called Kamakura, for both liquidity and interest rate risk management. The internal funds transfer pricing system is based on market rates and is designed to allocate all costs and benefits to the business segments in a way that incentivizes the efficient use of liquidity. As part of the overall risk management framework, the assets and liabilities of the Bank are modeled and analyzed in order to adequately reflect the liquidity and interest rate risk profile of the Bank.

Liquidity Portfolio Management team is responsible for managing the liquidity in accordance with the strategy approved by the Asset and Liability Committee and overseen by the Management Board. We manage our liquidity position through a conservative strategy aimed at maintaining adequate long-term funding, within a stable deposit base to support the Bank's lending programs. The liquidity profile is maintained at a sufficient level that allows the Bank to respond to clients' needs and meet payment obligations both during normal economic activity and stress conditions. This includes potential currency mismatches, which are subject to limits. The team insures this objective by:

- analyzing and understating the liquidity behavior of products and business segments;
- monitoring and forecasting the liquidity position;
- maintaining optimum short-term liquidity, including intraday, for insuring Bank's ability to perform real time payments;
- managing the portfolio of high-quality liquid assets (HQLA) as defined by the European and local regulations;
- managing the investment portfolio;
- complying with the regulatory minimum reserve requirements.

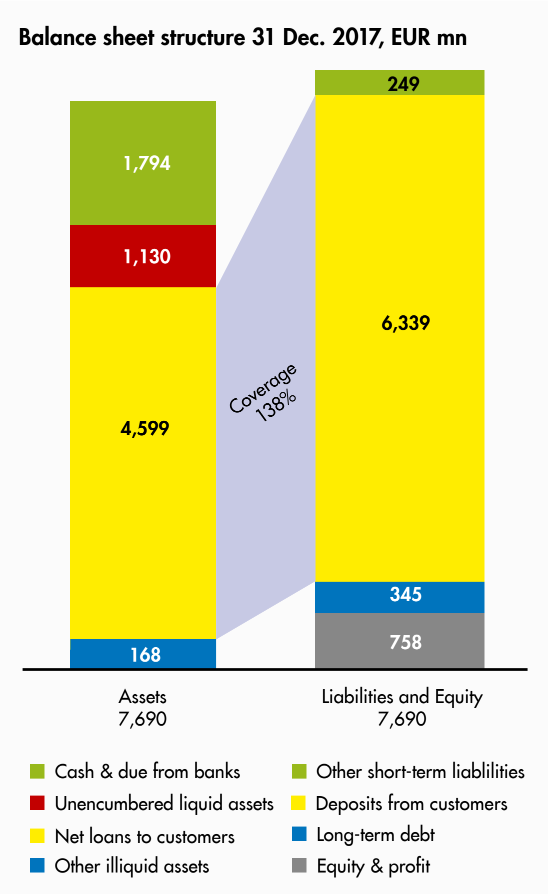
For insuring adequate liquidity in stress conditions the Bank holds a liquidity buffer comprised of high quality liquid assets (HQLA), including cash held at Central Bank and bonds eligible as collateral for central bank liquidity facilities.

Liquidity Coverage Ratio (LCR), the regulatory standard for stress conditions, aims to ensure sufficient liquid assets to meet liquidity needs in a stress environment for 30 days. According to regulatory requirements, in 2017 the minimum ratio was 80%, and starting with January 2018, the minimum level goes up to 100%. In the case of Raiffeisen Bank, the value of the liquidity buffer held by the Bank was in an amount of EUR 2,285 mn in December 2017, the corresponding ratio being close to 153%, significantly above the minimum required level of 80%.

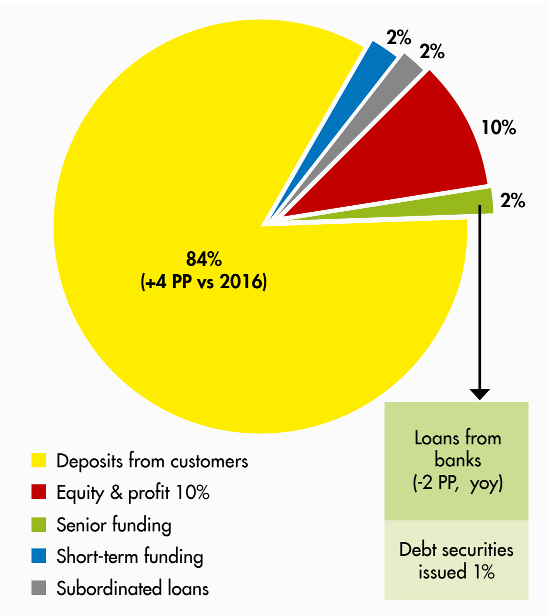
	DECEMBER 2016	DECEMBER 2017
High-quality liquid assets (EUR mn)	1,733	2,285
Net outflows (EUR mn)	862	1,493
LCR value (%)	201%	153%

The funding management unit is responsible for the development, execution and regular updating of the Bank's funding plan. The funding plan reflects the projected business growth, development of the balance sheet, future funding needs and maturity profiles, as well as the effects of changing market and regulatory conditions, all within the context of the management of the Bank's capital structure. Furthermore, the funding management team is responsible for the coordination of the access and participation to the implementation of various programs developed by international financial institutions, supporting the lending activity of the business lines. This unit is also responsible for the management of the relationships with the external rating's agencies.

The balance sheet is funded primarily through core customer deposits, long-term debt (in the form of senior debt issuance, senior loans and subordinated loans), and shareholders' equity. We monitor the funding sources, including their concentrations, according to their currency, tenor, maturity, and whether they are secured or unsecured.



Similar to 2016, last year was characterized by ample liquidity at the level of the Bank, sustained primarily by its strong deposit base.



In 2017, the Bank continued its successful partnership with the European Investment Fund (EIF) by participating, signing and implementing two new programs dedicated to SMEs: COSME and SME Initiative.

The former program was made possible by the support of the European Fund for Strategic Investments (EFSI). The EFSI is the central pillar of the Investment Plan for Europe, the so-called "Juncker Plan", aimed at supporting small and mid-size companies, which normally find it difficult to attract financing.
According to the COSME agreement, the Bank will grant approximately RON 800 million loans (approximately EUR 172 million) to mid, small and micro companies in Romania. Through COSME, we can grant to SMEs loans with reduced collateral requirements, for longer tenors, and to offer support to start-up companies, which usually have limited access to lending.

In May 2017, we were the first bank in Romania to sign with EIF a new agreement under the "SME Initiative" Operational Program for a new financial instument in the form of an uncapped guarantee. This instrument will result in more SMEs benefiting from European resources for accessing loans on advantageous terms, such as reduced interest rates and improved collateral requirements.

ASSET MANAGEMENT

Raiffeisen Asset Management (RAM), the asset management company of the Group, continued attracting significant amounts from the clients throughout its investment funds during 2017, thus maintaining its position among the largest asset management company, with a market share of approximately 16% and over 1.4 billion euro assets under management (according to the Fund Managers Association's statistics).

The growth of the assets under management was sustained by the fixed income funds, Raiffeisen Dolar Plus, with an addition of 100 million lei, but especially by the absolute return funds, Raiffeisen Benefit and Raiffeisen Benefit euro, which contributed with an additional 60, respectively 70 million lei.

In the context of a dynamic market, the sales force succeeded continuing presenting the investors the benefits of the investment funds.
RAM was again the beneficiary of their trust, together launching Raiffeisen Benefit euro, the second best fund launch among RAM funds.
Starting from the clients' expectations and risk profile, Raiffeisen Bank's client advisors offered a wide range of products, the investment funds being an attraction

not only for the individuals with saving and investing interests, but for the small and medium companies who wish to maximize the return of their liquidities as well.

The wide range of products allowed the full satisfaction of the clients' investment options not only in lei, but in EUR and USD as well.
The differentiation from the competitors was due to the adequate communication of the advantages of the funds on one hand, and the implication in the capital gain taxation optimization on the other hand.

The company also had a constant focus towards innovation, being:
- the first in Romania to diversify equity investments to other foreign markets, through Raiffeisen Prosper and Raiffeisen Benefit;
- the first and only company to launch an open-end capital protected investment fund, Raiffeisen Confort and Raiffeisen Confort euro;
- the first and only to launch a voluntary pension fund, Raiffeisen Acumulare;
- the first company in Romania to manage a fixed income fund denominated in euro, Raiffeisen euro Plus;
- the first company in Romania to manage a fixed income fund denominated in USD, Raiffeisen Dolar Plus.

Participations

Raiffeisen Group is present in Romania through its subsidiaries on different segments of the financial market: banking, investment fund management, leasing, and also the building societies segment.

S.A.I. Raiffeisen Asset Management S.A. (RAM) is the asset management company of the Group in Romania. RAM's objective is to develop a large range of products to best serve our clients' financial objectives. At the end of 2017, Raiffeisen Asset Management was the only asset management company in Romania offering open investment funds and voluntary pension funds.

The social capital, amounted to RON 10,656,000, is 99.99% owned by Raiffeisen Bank S.A.
The accounting assets amounted to EUR 10 million. By the end of 2017 Raiffeisen Asset Management S.A. was the second player on the specific market, with more than 16% market share and assets under management equivalent to approximately EUR 1.4 billion.

Raiffeisen Leasing IFN S.A. has been representing the Raiffeisen Group on the Romanian Leasing Market since 2002. The company share capital is RON 14,935,400 and offers a wide range of products for SMEs, corporations and, in a small part, for individuals.

The company provides customized financing solutions in lei or euros, offering fixed or variable interest finance for various types of projects and assets, such as vehicles, equipment or real estate. Raiffeisen Leasing benefits of a distribution network that includes 15 locations in large cities and over 500 Raiffeisen Bank branches.

As of 31.12.2017, Raiffeisen Leasing IFN S.A.'s assets amounted to approximately EUR 201 million and its client database included about 3,900 active clients.

The company has strenghthened its business volumes in the past years, confirming in 2017 its established strategic directions, registering a balanced portfolio structure as regards customer segments and funded assets, as well as a significant decrease in non-performing loans.

In 2017, Raiffeisen Leasing actively pursued achieving a sustainable business model, paying attention especially to the responsible deployment of capital. Raiffeisen Leasing's offer was kept in line with the market trends and general context.
In 2017 the company registered an increase of financed leasing projects, mainly sustained by the automotive segment – cars and light commercial vehicles.

Raiffeisen Banca pentru Locuințe S.A. (RBL) is the first company in Romania promoting the savings-lending (known as Bauspar) system, founded in 2004 and focused on developing the housing sector.

The company is owned by Raiffeisen Bank S.A., Raiffeisen Bausparkasse GmbH – Austria, and Bausparkasse Schwaebisch Hall AG – Germany, each having approximately equal stakes, representing 33.3% of the entire share capital.
The product is a combination between savings and loans and, besides the state premium granted by the Romanian state, the Bank offers fixed interest both on savings and on loans.

The Bauspar system for housing purposes has a powerful social role, encouraging the long-term savings and improving the housing conditions in Romania.

At the end of 2017, Raiffeisen Banca pentru Locuințe S.A. had a share capital of RON 131 million and assets amounting to RON 624 million.

At the end of 2017, the Bank owned 100% of **Raiffeisen Services S.R.L.,** 33.33% of Fondul de Garantare a Creditului Rural IFN S.A.'s share capital and also held equity investments in Biroul de Credit S.A, Depozitarul Central S.A., Transilvania Leasing and Credit IFN S.A., Fondul Român de Garantare a Creditelor pentru Întreprinzătorii Privați IFN S.A., Casa de Compensare București S.A., Visa Inc., Societatea de Transfer de Fonduri și Decontări-TransFond S.A.

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Notes to the Consolidated and Separate Financial Statements for the Year Ended 31 December 2017 068

Statement Regarding the Responsibility for Preparing the Consolidated and Separate Financial Statements as of 31 December 2017

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

Officially in charge as president of Raiffeisen Bank S.A. – parent company –, in accordance with article 31 from republished accounting Law No. 82/1991, I assume the responsibility for preparing the consolidated and separate financial statements as of 31 December 2017 and I confirm that:

a) accounting policies used for preparing the consolidated and separate financial statements as of 31 December 2017 are in accordance with Order of the National Bank of Romania No. 27/2010 and related amendments, which require that these consolidated and separate financial statements to be prepared in accordance with International Financial Reporting Standards as endorsed by the European Union;

b) consolidated and separate financial statements prepared as of 31 December 2017 fairly reflect the financial position, statement of comprehensive income, statement of changes in equity, statement of cash flow and the related notes for the activity developed in accordance with Order of the National Bank of Romania No. 27/2010 and related amendments, which require that these consolidated and separate financial statements to be prepared in accordance with International Financial Reporting Standards as endorsed by the European Union.

Steven van Groningen
President

Building a better
working world

Ernst & Young Assurance Services SRL
Bucharest Tower Center Building, 21st Floor
15-17 Ion Mihalache Blvd., Sector 1
011171 Bucharest, Romania

Phone: +40 21 402 4000
Fax: +40 21 310 7219
office@ro.ey.com
ey.com

TO THE SHAREHOLDERS OF RAIFFEISEN BANK S.A.
REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

We have audited the consolidated and separate financial statements of Raiffeisen Bank S.A. ("the Bank") having its official head office in 246C Calea Floreasca Bd, identified by sole fiscal registration number RO361820, which comprise the consolidated and separate statement of financial position as at December 31, 2017, the consolidated and separate statement of comprehensive income, the consolidated and separate statement of changes in equity and the consolidated and separate statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of the Bank as at December 31, 2017, and of its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with the National Bank of Romania Order no 27/2010, approving the accounting regulations compliant with the International Financial Reporting Standards for credit institutions, with subsequent modifications and clarifications.

Basis for our opinion

We conducted our audit in accordance with the International Standards on Auditing (ISAs), Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 ("Regulation (EU) No 537/2014") and Law 162/2017 („Law 162/2017").
Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report.
We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to the audit of financial statements in Romania, including Regulation (EU) No. 537/2014 and Law 162/2017, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

KEY AUDIT MATTERS

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

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

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

Key audit matter

Impairment of loans and advances to customers

Management's assessment of impairment indications and determination of the impairment allowance for loans and advances to customers is a complex process and involves judgment and use of estimates. Such an assessment is inherently uncertain, involving various assumptions in estimating expected future cash flows, expected net selling prices of collaterals and timing of recovery of collateral.

Special considerations are given to aspects that are new or experienced notable developments in 2017, like Law no. 151/2015 regarding insolvency procedure for individuals and the portfolio in Swiss francs, including the relevant legislative developments related to these loans.

The use of different modelling model techniques and assumptions could produce significantly different estimates of impairment allowance. Notes 3 j), 5 and 20 to the financial statements present more information on the estimation of impairment allowance for loans and advances to customers.

Due to the significance of loans and advances to customers (representing 60.21% of total consolidated Bank's assets and 59.37% of total separate Bank's assets) and the related estimation uncertainty, we consider this a key audit matter.

How our audit addressed the key audit matter
Our audit procedures included, among others, the assessment of the Bank's methodology regarding the identification of impairment indicators, assessment of specific impairment allowance and collective impairment allowance. We assessed the design and evaluated the operating effectiveness of internal controls over the monitoring of loans and advances to customers and over impairment calculations including the quality of underlying data and relevant systems.

For impairment allowance for loans assessed on an individual basis, our evaluation was focused on those loans with the most significant potential impact on the financial statements and considered the key assumptions underlying the impairment identification and quantification such as estimated future cash flows.

Our internal valuation experts were involved, as appropriate, to assist us in performing our audit procedures.

For impairment allowance for loans calculated on a collective basis we analyzed the Bank's methodology, inputs and assumptions used, as well as the model validation, where the case.

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

Key audit matter
Provisions for litigations and other risk
The process for recording provisions is an estimation process involving a high level of judgment, therefore there is an inherent risk that the existing provisions at year-end may significantly differ from the actual outflow of economic resources in subsequent years. The Bank sets up provisions for litigations and other risks, notes 30 and 35 (iii) to the financial statements presenting more information on their estimation. The main aspects for which the management exercised judgment are the disputes and litigations related to consumer protection issues.

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

How our audit addressed the key audit matter
The audit procedures performed included, among others, an assessment of the Bank's governance, processes and internal controls with respect to recognition and measurement of provisions, as well as of the management's assumptions considering the supporting explanations and documentation provided by management and its internal legal advisors for the recording of significant provisions.

We obtained written confirmations from the external legal counsels and compared their opinions with the management's assumptions and assessment regarding the impact and the disclosures in the financial statements related to significant litigations.

Our evaluation was focused on the significant matters, especially the ones that were new or that experienced notable developments in 2017, such as litigations related to consumer protection issues.
Our legal experts were involved in the analysis and corroboration of the assumptions used in determining the provisions and contingent liabilities by considering the relevant legal requirements.

We also evaluated the adequacy of the Bank's disclosures in the financial statements regarding provisions for risks and litigations.

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

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

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

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

OTHER INFORMATION

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

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

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

If, based on the work we have performed on the other information obtained prior to the date of the auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements
Management is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with the National Bank of Romania Order no 27/2010, approving the accounting regulations compliant with the International Financial Reporting Standards for credit institutions, with all subsequent modifications and clarifications, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Reporting on information other than the financial statements and our auditors' report thereon

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

a) in the Directors' Report we have not identified information which is not consistent, in all material respects, with the information presented in the accompanying consolidated and separate financial statements as at December 31, 2017;

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

c) based on our knowledge and understanding concerning the entity and its environment gained during our audit of the consolidated and separate financial statements as at December 31, 2017, we have not identified information included in the Directors' Report that contains a material misstatement of fact.

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

Appointment and approval of auditor

We were appointed as auditors of the Bank by the General Shareholders' Meeting on April 28, 2015 to audit the consolidated and separate financial statements for the financial year ended December 31, 2017.

Building a better working world

Total uninterrupted engagement period, including previous renewals (extension of the period for which we were originally appointed) and reappointments as the statutory auditor, has been of 6 years, covering the financial periods end December 31, 2012 until December 31, 2017.

Consistency with additional report to the Audit Committee
Our audit opinion on the consolidated and separate financial statements expressed herein is consistent with the additional report to the Audit Committee of the Bank, which we issued on March 23, 2018.

Provision of non-audit services
No prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council were provided by us to the Bank and controlled undertakings and we remain independent from the Bank in conducting the audit.

Apart from statutory audit services and services disclosed in the consolidated and separate financial statements, we provided no other services to the Bank and its controlled undertakings.

On behalf of

Ernst & Young Assurance Services SRL
15-17, Ion Mihalache Blvd., floor 21, Bucharest, Romania
Registered with the Chamber of Financial Auditors in Romania No. 77/15 August 2001

Ernst & Young Assurance Services S.R.L.
25. MAR 2016
Signed for identification
Semnat pentru identificare

Name of the Auditor / Partner: Gelu Gherghescu
Registered with the Chamber of Financial Auditors in Romania No. 1449/9 September 2002

Bucharest, Romania
30 March 2018

Consolidated and Separate Statement of Comprehensive Income for the Year Ended 31 December 2017

IN RON THOUSANDS	NOTE	GROUP 2017	GROUP 2016	BANK 2017	BANK 2016
Interest income		1,296,747	1,264,260	1,264,633	1,263,495
Interest expense		(118,699)	(152,156)	(112,700)	(152,433)
Net interest income	7	**1,178,048**	**1,112,104**	**1,151,933**	**1,111,062**
Fees and commissions income		759,989	772,471	741,546	758,696
Fees and commissions expense		(173,672)	(151,089)	(173,256)	(150,719)
Net fee and commission income	8	**586,317**	**621,382**	**568,290**	**607,977**
Net trading income	9	311,268	300,741	310,781	300,633
Net gain from other financial instruments carried at fair value through profit and loss	21	5,921	7,784	6,128	7,571
Other operating income	10	44,946	130,408	48,563	148,303
Operating income		**2,126,500**	**2,172,419**	**2,085,695**	**2,175,546**
Operating expenses	11	(727,744)	(638,723)	(719,294)	(635,986)
Personnel expenses	12	(555,806)	(532,813)	(538,364	(527,712)
Net provisioning for impairment losses on financial assets	13	(245,623)	(469,269)	(244,277)	(469,269)
Negative goodwill		5,245	0	0	0
Share of gain from associates and joint ventures	22	1,485	9,562	0	0
Profit before income tax		**604,057**	**541,176**	**583,760**	**542,579**
Income tax expense	14,15	(95,138)	(91,898)	(92,583)	(90,950)
Net profit for the year		**508,919**	**449,278**	**491,177**	**451,629**
Net gains (losses) on financial assets available-for-sale		(14,504)	(66,626)	(14,003)	(66,584)
Related tax of items to be reclassified to profit and loss		2,321	10,660	2,241	10,653
Other comprehensive income		**(12,183)**	**(55,966)**	**(11,762)**	**(55,931)**
Total comprehensive income for the year, net of income tax		**496,736**	**393,312**	**479,415**	**395,698**

The consolidated and separate statement of comprehensive income are to be read in conjunction with the notes to and forming part of the consolidated and separate financial statements set out on pages 068 to 178.

The consolidated and separate financial statements were approved by the Management Board on 30 March 2018 and were signed on its behalf by:

Steven van Groningen
President

Mihail Ion
Vice-president & Chief Financial Officer

Consolidated and Separate Statement of Financial Position for the Year Ended 31 December 2017

IN RON THOUSAND	NOTE	GROUP 31 DECEMBER 2017	GROUP 31 DECEMBER 2016	BANK 31 DECEMBER 2017	BANK 31 DECEMBER 2016
ASSETS					
Cash and cash with Central Bank	16	8,471,977	8,203,157	8,471,851	8,203,153
Trading assets	17	86,298	443,694	86,775	443,758
Derivative assets held for risk management	18	35,237	1,013	35,237	1,013
Loans and advances to banks	19	89,168	546,165	85,641	546,165
Loans and advances to customers	20	22,161,274	19,761,042	21,422,932	19,761,017
Investment securities	21	5,249,814	3,849,590	5,210,494	3,812,486
Investment in subsidiaries, associates and joint ventures	22	23,911	69,122	105,379	62,655
Tax receivable		541	12,775	0	12,775
Other assets	26	287,828	205,427	269,866	208,831
Deferred tax assets	25	17,167	13,152	17,050	13,042
Property and equipment	23	221,082	236,092	219,485	235,679
Intangible assets	24	162,118	119,414	159,997	119,236
Total assets		**36,806,415**	**33,460,643**	**36,084,707**	**33,419,810**
LIABILITIES					
Trading liabilities	17	29,291	60,124	29,603	60,124
Derivative liabilities held for risk management	18	50,844	4,120	50,245	4,101
Deposits from banks	27	508,289	583,014	508,289	583,014
Deposits from customers	28	29,695,999	26,374,944	29,736,748	26,381,841
Loans from banks and other financial institutions	29	931,958	1,137,587	240,600	1,137,587
Current tax liabilities		21,582	102	21,544	0
Other liabilities	31	535,827	482,498	531,047	481,135
Debt securities issued	29	512,501	512,239	516,223	515,961
Subordinated liabilities	29	849,017	954,973	849,017	954,973
Provisions	30	80,464	77,135	78,037	77,135
Total liabilities		**33,215,772**	**30,186,736**	**32,561,353**	**30,195,871**
EQUITY					
Share capital	32	1,200,000	1,200,000	1,200,000	1,200,000
Retained earnings		2,156,444	1,827,525	2,089,243	1,778,066
Other reserves	33	234,199	246,382	234,111	245,873
Total equity		**3,590,643**	**3,273,907**	**3,523,354**	**3,223,939**
Total liabilities and equity		**36,806,415**	**33,460,643**	**36,084,707**	**33,419,810**

The consolidated and separate statement of financial position is to be read in conjunction with the notes to and forming part of the consolidated and separate financial statements set out on pages 068 to 178.

The consolidated and separate financial statements were approved by the Management Board on 30 March 2018 and were signed on its behalf by:

Steven van Groningen
President

Mihail Ion
Vice-president & Chief Financial Officer

Consolidated and Separate Statement of Changes in Equity for the Year Ended 31 December 2017

GROUP

IN RON THOUSANDS	SHARE CAPITAL	OTHER RESERVES	RETAINED EARNINGS	TOTAL
Balance at 1 January 2016	**1,200,000**	**281,215**	**1,729,380**	**3,210,595**
Net profit for the year	0	0	449,278	449,278
Other comprehensive income, net of income tax	0	(55,966)	0	(55,966)
Total comprehensive income for the year, net of income tax	**0**	**(55,966)**	**449,278**	**393,312**
Distribution to reserves	0	21,133	(21,133)	0
Distribution of dividends	0	0	(330,000)	(330,000)
Balance at 31 December 2016	**1,200,000**	**246,382**	**1,827,525**	**3,273,907**
Balance at 1 January 2017	**1,200,000**	**246,382**	**1,827,525**	**3,273,907**
Net profit for the year	0	0	508,919	508,919
Other comprehensive income, net of income tax	0	(12,183)	0	(12,183)
Total comprehensive income for the period, net of income tax	**0**	**(12,183)**	**508,919**	**496,736**
Distribution of dividends	0	0	(180,000)	(180,000)
Balance at 31 December 2017	**1,200,000**	**234,199**	**2,156,444**	**3,590,643**

BANK

IN RON THOUSANDS	SHARE CAPITAL	OTHER RESERVES	RETAINED EARNINGS	TOTAL
Balance at 1 January 2016	**1,200,000**	**280,669**	**1,677,572**	**3,158,241**
Net profit for the year	0	0	451,629	451,629
Other comprehensive income, net of income tax	0	(55,931)	0	(55,931)
Total comprehensive income for the period, net of income tax	**0**	**(55,931)**	**451,629**	**395,698**
Appropriation of profit to reserves	0	21,135		0
Distribution of dividends	0	0	(330,000)	(330,000)
Balance at 31 December 2016	**1,200,000**	**245,873**	**1,778,066**	**3,223,939**
Balance at 1 January 2017	**1,200,000**	**245,873**	**1,778,066**	**3,223,939**
Net profit for the year	0	0	491,177	491,177
Other comprehensive income, net of income tax	0	(11,762)	0	(11,762)
Total comprehensive income for the year, net of income tax	**0**	**(11,762)**	**491,177**	**479,415**
Distribution of dividends	0	0	(180,000)	(180,000)
Balance at 31 December 2017	**1,200,000**	**234,111**	**2,089,243**	**3,523,354**

The consolidated and separate statement of changes in shareholders' equity is to be read in conjunction with the notes to and forming part of the consolidated and separate financial statements set out on pages 068 to 178.

Consolidated and Separate Statement of Cash Flows for the Year Ended 31 December 2017

IN RON THOUSANDS	NOTE	GROUP 2017	GROUP 2016	BANK 2017	BANK 2016
CASH FLOWS FROM OPERATING ACTIVITIES					
Net profit for the year		508,919	449,278	491,177	451,629
ADJUSTMENTS FOR NON-CASH ITEMS					
Depreciation and amortization	11	100,603	80,362	99,552	80,238
Net impairment loss on financial assets (release from recoveries is not included)	13	470,839	611,099	469,493	611,099
Impairment on available for sale instruments	10	(1,692)	16,771	0	14,106
Negative goodwill		(5,245	0	0	0
Group share of gain from associates and joint ventures	22	(1,485)	(9,562	0	0
Loss on the sale of property, plant and equipment and of intangible assets		12,052	21,446	10,611	11,565
Net charge of provisions for litigation and other provisions	10,11	(6,680)	(14,550)	(6,680)	(14,550)
Income tax expense	14,15	95,138	91,898	92,583	90,950
Fair value adjustments		12,613	(95,642)	12,073	(95,605
Net interest income	7	(1,178,048)	(1,112,104)	(1,151,933)	(1,111,062)
Unrealized foreign exchange losses		51,409	(4,786)	51,409	(4,787
Income from dividends		(1,774)	(1,501)	(6,711)	(15,990)
Operating profit before changes in operating assets and liabilities		**56,649**	**32,709**	**61,574**	**17,593**
CHANGE IN OPERATING ASSETS					
Decrease in trading assets and derivatives held for risk management		357,397	83,439	356,983	83,460
(Increase) in loans and advances to banks		2,366	(3,034)	(16,149)	(3,034)
(Increase) in loans and advances to customers		(2,234,162)	(2,111,966)	(2,360,556)	(2,111,941)
(Increase)/Decrease in investment securities		(1,387,170)	160,320	(1,384,872)	176,572
(Increase) in other assets		(88,901)	(74,016)	(69,722)	(64,036)
Purchase of loan portfolio		0	(337,067)	0	(337,067)
Proceeds from sale of loans		225,218	146,318	225,216	146,318
CHANGE IN OPERATING LIABILITIES					
(Decrease)/Increase in trading liabilities		(30,833)	22,222	(30,521)	22,222
(Decrease) in deposits from banks		(77,646)	(44,068)	(77,646)	(44,068)
Increase in deposits from customers		3,222,283	2,575,204	3,269,303	2,578,497
Increase in other liabilities		73,039	16,428	73,060	16,258
Taxation paid		(77,031)	(85,019)	(75,596)	(84,186)
Interest paid		(105,656)	(166,072)	(102,231)	(166,410)
Interest received		1,307,135	1,439,322	1,275,021	1,438,558
Cash flows from operating activities		**1,242,688**	**1,654,720**	**1,143,864**	**1,668,736**

continued on next page

Consolidated and Separate Statement of Cash Flows for the Year Ended 31 December 2017 (continued)

IN RON THOUSANDS	NOTE	GROUP 2017	GROUP 2016	BANK 2017	BANK 2016
INVESTING ACTIVITIES					
Proceeds from sale of property, plant and equipment		10,128	18,280	8,687	8,397
Acquisition of property, plant and equipment	23	(55,570)	(93,485)	(53,821)	(83,376)
Acquisition of intangible assets	24	(81,788)	(63,648)	(80,909)	(63,488)
Acquisition of investment in subsidiaries	22	(42,724)	0	(42,724)	0
Proceeds from investment in subsidiaries, associates and joint ventures	22	0	25,861	0	0
Proceeds from sale of investment securities		153	107,608	153	107,395
Dividends received		1,774	1,501	6,711	15,990
Cash flows used in investing activities		**(168,027)**	**(3,883**	**(161,903)**	**(15,082)**
FINANCING ACTIVITIES					
Cash from loans from banks		(92,578)	130,982	0	130,981
Repayments of loans from banks		(902,307)	(603,718)	(902,307)	(603,718)
Redemption of debt securities issued		0	(222,096)	0	(224,902)
Repayments of subordinated liabilities		(116,493)	0	(116,493)	0
Dividends paid		(180,000)	(330,000)	(180,000)	(330,000)
Cash flow from financing activities		**(1,291,378)**	**(1,024,832)**	**(1,198,800)**	**(1,027,639)**
Net increase/(decrease) in cash and cash equivalents		(216,717)	626,005	(216,839)	626,015
Cash and cash equivalents at 1 January		**8,733,261**	**8,107,256**	**8,733,257**	**8,107,242**
Cash and cash equivalents at 31 December		**8,516,544**	**8,733,261**	**8,516,418**	**8,733,257**

ANALYSIS OF CASH AND CASH EQUIVALENTS

IN RON THOUSANDS	NOTE	GROUP 2017	GROUP 2016	BANK 2017	BANK 2016
CASH AND CASH EQUIVALENTS COMPRISE:					
Cash on hand	16	4,516,070	3,502,500	4,515,944	3,502,496
Cash with Central Bank	16	3,955,907	4,700,657	3,955,907	4,700,657
Loans and advances to banks – less than 3 months		8,471,977	8,203,157	8,471,851	8,203,153
Cash and cash equivalents in the cash flow statement		44,567	530,104	44,567	530,104
Numerar și echivalente numerar în situația fluxurilor de trezorerie		**8,516,544**	**8,733,261**	**8,516,418**	**8,733,257**

The consolidated and separate statement of cash flows is to be read in conjunction with the notes to and forming part of the consolidated and separate financial statements set out on pages 068 to 178.

Notes to the Consolidated and Separate Financial Statements for the Year Ended 31 December 2017

1. REPORTING ENTITY

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

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

The consolidated and separate financial statements of the Bank for the year ended 31 December 2017 comprise the Bank and its subsidiaries (together referred to as the "Group").

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

The main activity of the Bank is to provide day-to-day banking services to corporate and individual clients. These include: accounts opening, domestic and international payments, foreign exchange transactions, working capital finance, medium term facilities, bank guarantees and letters of credit. The Group also provides financial consultancy services for small and medium enterprises operating in Romania, financial leasing services, loan services in locative system and asset management services. The Group operates through the Head Office located in Bucharest and through its network of 451 branches as at 31.12.2017 (2016: 478 branches).

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

The members of the Supervisory Board as of December 31, 2017 are as follows:
- Johann Strobl – Chairman
- Martin Grüll – Deputy Chairman
- Ana Maria Mihăescu – Independent Member
- Hannes Mösenbacher – Member
- Peter Lennkh – Member
- Anca Ileana Ioan – Independent Member
- Andreas Gschwenter – Member

The structure of the Management Board as of December 31, 2017 is as follows:
- Steven van Groningen – President;
- Cristian Sporiș – Vice-president, coordinating the Corporate Division;
- James D. Stewart. Jr. – Vice-president, coordinating the Treasury and Capital Markets Division;
- Bogdan Popa – Vice-president, coordinating the Operations and IT Division;
- Vladimir Kalinov – Vice-president, coordinating the Retail Division;
- Mircea Busuioceanu – Vice-president, coordinating the Risk Division;
- Mihail Ion – Vice-president, coordinating the Accounting and Financial Controlling Division.

2. BASIS OF PREPARATION

a) Statement of compliance

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

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

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

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

b) Basis of measurement

The consolidated and separate financial statements have been prepared on the historical cost basis except for the following significant items from the consolidated statement of financial position:

- derivative financial instruments are measured at fair value;
- financial instruments held for trading and those designated at fair value through profit or loss are measured at fair value;
- available-for-sale financial assets are measured at fair value;
- liabilities for cash-settled share based payment arrangements are measured at fair value.

c) Functional and presentation currency

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

d) Use of estimates and judgments

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions of accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.
The management judgments in applying accounting policies, which have a significant impact on the consolidated and separate financial statements as well as highly uncertain estimates, are disclosed in Note 5.

3. SIGNIFICANT ACCOUNTING POLICIES

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

a) Basis of consolidation

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

The Bank holds:

- 99.99% (2016: 50%) interest in Raiffeisen Leasing IFN S.A.;
- 99.99% (2016: 50%) interest in ICS Raiffeisen Leasing S.R.L. from the Republic of Moldova, a company held 100% by Raiffeisen Leasing IFN S.A.;
- 100% (2016: 100%) investment in Raiffeisen Services S.R.L., a company providing financial services with the exception of those related to services rendered on the capital markets;
- 99.99% (2016: 99.99%) investment in Raiffeisen Asset Management S.A., an asset management company with the purpose of administrating funds.

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

The Bank classified the investment in subsidiaries as financial assets available for sale and evaluated them at cost due to the fact that these investments are equity instruments for which there is no active market for identical instruments and their fair value cannot be reliably estimated. Fair value requires significant judgement by management.

(ii) Joint venture
The Group holds 33.32% (2016: 33.32%) in Raiffeisen Banca pentru Locuințe S.A. which is an entity exclusively dedicated to saving and lending business.

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

The Bank has classified this investment as financial assets available for sale and evaluated it at cost less provision for impairment.

(iii) Associates
Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies.

The consolidated financial statements include the Group's share of the total recognized gains and losses of associates and joint ventures on an equity accounting basis, from the date that significant influence commences until the date that significant influence ceases (see Note 22).

When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate. After application of the equity method, including recognizing the associate's losses, the investor applies the requirements of IAS 39 "Financial Instruments: Recognition and Measurement" to determine whether it is necessary to recognize any additional impairment loss with respect to the investor's net investment in the associate.

The Bank holds an investment of 33.33% (2016: 33.33%) in Fondul de Garantare a Creditului Rural – IFN S.A. Also the Group accounts proportionately for the share of gain or loss from its associates in accordance to IFRS 11 "Investments in Associates".

The Bank has classified this investment as financial assets available for sale and evaluated it at cost less provision for impairment, where appropriate.

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

b) Foreign Currency

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

The exchange rates of major foreign currencies were:

CURRENCIES	31 DECEMBER 2017	31 DECEMBER 2016	% INCREASE / DECREASE
euro (EUR)	1:RON 4.6597	1:RON 4.5411	2.61%
US Dollar (USD)	1:RON 3.8915	1:RON 4.3033	-9.57%

(ii) Foreign operations
A foreign operation is the one whose activities are based in a country other than that of the reporting entity or whose activities are denominated in the different currency than the one of the reporting entity.
The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to RON at exchange rates at the reporting date. The income and expenses of foreign operations are translated to RON at the exchange rates at the date of the transactions.

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

c) Interest income and expense

Interest income and expense are recognized in the consolidated and separate statement of comprehensive income using the effective interest rate method for all financial instruments. The effective interest rate method is used to determine the amortized cost of a financial asset or liability and apportion the interest income and expense over a relevant period of time. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. For the effective interest rate computation, the Group estimates the future cash flows by taking into account the contractual terms of each financial instrument, however it does not account for future credit losses. The calculation of the effective interest rate includes all fees and commissions paid or received, transaction costs and discounts or premiums that are an integral part of the effective interest rate. The effective interest rate method is a method of calculating the amortized cost of loans and advances to customers whereby up-front and management fees received between parties to the contract and origination costs should be integral part of the effective interest rate and should be amortized and recognized as interest income over the relevant period.

Interest income and expense presented in the consolidated and separate statement of comprehensive income include:
- interest on loans and advances to customers on an effective interest basis;
- fees and commission income/expense attributable to loan origination and management of a financial asset or liability;
- interest on financial assets and liabilities at amortized cost on an effective interest rate basis;
- interest on available-for-sale investment securities on an effective interest basis;
- interest on investment securities designated at fair value through profit or loss.

Fees and commissions directly attributable to the origination and management of a financial asset or liability (both income and expense) are included in the measurement of the effective interest rate.

Loan origination fees, which can be separately identified, are deferred, together with the directly attributable costs and are recognized as an adjustment to the effective interest rate of the loan.

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

d) Fees and commissions

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

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

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

e) Net trading income

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

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

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

g) Dividends

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

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

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

h) Lease payments

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

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

i) Income tax

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

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

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

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

j) Financial assets and liabilities

(i) Classification
The Group classifies its financial instruments into the following categories:

Financial asset or financial liability at fair value through profit or loss.
This category has two sub-categories:
- financial assets or financial liabilities held for trading
- and those designated at fair value through profit or loss at inception.

Trading assets and liabilities
Trading assets and liabilities are those assets and liabilities that the Group acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

Trading assets and liabilities are initially recognized and subsequently measured at fair value in the consolidated statement of financial position with transaction costs taken directly to profit or loss. All changes in fair value are recognized as part of net trading income in profit or loss.

Trading assets and liabilities are not reclassified subsequent to their initial recognition, unless the following conditions are met:
- if the financial asset meets the definition of loans and receivables (if the financial asset had not been required to be classified as held for trading at initial recognition), then it may be reclassified if the Group has the intention and ability to hold the financial assets for the foreseeable future or until maturity;
- if the financial asset does not meet the definition of loans and receivables, then it may be reclassified out of the trading category only in rare circumstances.

Derivatives held for risk management purposes
Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in

the consolidated statement of financial position. After initial recognition, the derivative financial instruments are measured at fair value without accounting for any additional cost of trading which may arise at the moment of sale or acquisition.

Changes in the fair value of these instruments are directly recognized in the profit or loss account, as part of the trading result.

Derivatives except for derivatives held for risk management are also classified as held for trading.

Held-to-maturity investments
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group's management has the positive intention and ability to hold to maturity.

Available-for-sale financial assets
Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss. The available for sale financial assets comprise unquoted equity instruments, bonds, and discount or coupon treasury bills issued by Government of Romania and credit institutions.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:
- those that the entity intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;
- those that the entity upon initial recognition designates as available for sale; or
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale.

(ii) Recognition
The Group initially recognizes loans financial assets and liabilities at fair value on the date that they are originated.

(iii) Derecognition
The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when the Group transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in the transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

The Group enters into transactions whereby it transfers assets recognized in the consolidated and separate statement of financial position, but retains either all risks or rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognized from the consolidated and separate statement of financial position. Transfers of assets with retention of all or substantially all risks and rewards include, for example, repurchase transactions. In transactions where the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognizes the asset if control over the asset is lost.

The rights and obligations retained in the transfer are recognized separately as assets and liabilities, as appropriate. In transfers where the control over the asset is retained, the Group continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

The transferred asset is derecognized if it meets the derecognition criteria.

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

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

(v) Amortized cost measurement
The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method, for the differences between the initial amount and the maturity amount, minus any reduction from impairment or from impossibility of recovery.

(vi) Fair value measurement
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects the effect of non-performance risk.

All estimates and judgments used in fair value measurement are described in Note 5. Unquoted equity instruments for which a reliable estimate of the fair value cannot be made are measured at cost and periodically tested for impairment.

(vii) Identification and measurement of impairment

Assets carried at amortized cost
The Group assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets loss are impaired. A financial asset or a group of financial assets are impaired and impairment losses are incurred 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 estimated. It may be difficult to identify a single event that caused the impairment. Rather the combined effect of several events may have caused the impairment. Losses expected as a result of future events, no matter how likely, are not recognized. If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. If a loan, receivable or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the effective interest rate, consisting in the current variable component of interest rate and the margin from the date of classification as default.

The carrying amount of the asset shall be reduced through use of an allowance account. The amount of the loss shall be recognized in the consolidated and separate statement of comprehensive income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease is related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed either directly or by using an allowance account. The amount of the reversal is recognized in the consolidated and separate statement of comprehensive income.

Loans and advances to customers
The Group has included observable data on the following loss events that come to its attention as objective evidence that loans and advances to customers or groups of loans to customers are impaired:
(a) significant financial difficulty of the borrower, in accordance with the internal customer evaluation procedure;
(b) a breach of contract, such as a default or delinquency in interest or principal payments;
(c) the lender, for economic or legal reasons relating to the borrower's financial difficulty, grants to the borrower a concession that the lender would not otherwise consider;
(d) it becomes probable that the borrower will enter bankruptcy or other financial reorganization;
(e) the disappearance of an active market for that financial asset because of financial difficulties;
(f) reliable data indicate that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
(i) adverse changes in the payment status of borrowers in the group, or
(ii) national or local economic conditions that correlate with defaults on the assets in the Group.

The Group first assesses whether objective evidence of impairment exists as described above individually for loans and advances to customers that are individually significant, and individually or collectively for loans that are not individually significant. If the Group determines that no objective evidence of impairment exists for individually assessed loans and advances to customers, whether significant or not, it includes the loans and advances to customers in a group of loans with similar credit risk characteristics and collectively assesses them for impairment. Loans and advances to customers that are 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.

For the purpose of the collective evaluation of impairment, loans and advances to customers are grouped on the basis of similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due according to the contractual terms (e.g. based on the Group's credit risk evaluation or the Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors).

The characteristics chosen are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

In assessing collective impairment the Group uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

For some loans fully covered with allowances for impairment, the Group has written off their value. At the same time these loans were recorded in off balance sheet and the Bank is still monitoring for further recoverability.

For corporate and small exposures, at least one of the following preconditions must be met before the write off of a financial asset in the balance sheet, for which the contractual rights can still be exercised:
a) the guarantee recovery process has ended or this process does not make economic sense;
b) the debtor bankruptcy legal proceedings were concluded, respectively there is no probability of future cash flow from the debtor.

For retail exposures (private individuals and micro), the following three conditions must be cumulatively fulfilled in order to write off a financial asset from the balance sheet, for which the contractual rights of the cash flows are not expired:
a) the last payment/collection is older than 360 days (payments under 10 euro are not taken into account);
b) all guarantees decreased the corresponding receivable and there are no real estate mortgages and/or movable (e.g. cars, equipment) in Group's favour that can be executed in any form required by law/or the value of the guarantee is zero;
c) recovery process by realization of real estate collateral is already completed.

Available for sale financial assets
For financial assets classified as available-for-sale, when a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized directly in other comprehensive income shall be removed from other comprehensive income and recognized in profit or loss even though the financial asset has not been derecognized. The amount of the cumulative loss that is removed from other comprehensive income and recognized in profit or loss shall be the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognized in profit or loss.

Also, the Group recognizes the impairment loss related to equity instruments classified as available for sale if there is a significant and prolonged depreciation of the fair value under the acquisition cost. Professional judgment should be applied to determine what "significant" and "prolonged" is and, when applying the professional judgment, the Group evaluates, among other factors, the duration and the extent in which the fair value of the investment is less than its cost. However, any subsequent recovery in the fair value of an impaired available for sale equity instrument is recognized in other comprehensive income.

Financial assets carried at cost
If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the respective financial asset and the present value of estimated future cash flows discounted at the current internal market rate of return for a similar financial asset. Such impairment losses are not reversed through profit and loss.

(viii) Designation at fair value through profit or loss
The Group has designated financial assets and liabilities at fair value through profit or loss when either:
- The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise;
- The assets or liabilities are managed, evaluated and reported internally on a fair value basis or
- The asset/liability contained an embedded derivative that significantly modified the cash flow that would otherwise have been required under the contract.

Note 6 sets out the amount of each class of financial asset or liability that has been designated at fair value through profit or loss. The financial assets designated at fair value through profit and loss comprise listed and unlisted bonds and other fixed income financial instruments issued by the government and corporate institutions. The Group has made the designation due to the fact that the respective assets are part of a group of financial assets evaluated and reported internally on a fair value basis in accordance with the risk management procedure and investment strategy of the Group.

k) Cash and cash equivalents

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

l) Property, plant and equipment

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

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

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

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

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

m) Intangible assets

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

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

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

n) Leased assets

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

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

o) Impairment of non-financial assets

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

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

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

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

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

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

p) Inventory

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

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

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

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

r) Employee benefits

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

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

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

The Group, in the normal course of business makes payments to the Romanian State funds on behalf of its Romanian employees for pension (Pillar 3), health care and unemployment benefit. All employees of the Group are members and are also legally obliged to make defined contributions (included in the social security contributions) to the Romanian State pension plan (a State defined contribution plan). All relevant contributions to the Romanian State pension plan are recognized as an expense in the consolidated statement of comprehensive income as incurred. The Group does not have any further obligations.

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

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

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

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

s) Business combination

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

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

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

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

t) Financial guarantees

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

Financial guarantee liabilities are initially recognized at their fair value, and the initial fair value is amortized over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortized amount and the present value of any expected payments (when a payment under the guarantee has become probable). Financial guarantees are included within other liabilities.

u) Provisions

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

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

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

Standards issued but not yet effective and not early adopted:
• *IFRS 9 Financial Instruments: Classification and Measurement* The standard is effective for annual periods beginning on or after 1 January 2018, with early application permitted. The final version of IFRS 9 Financial Instruments reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

The Group will apply IFRS 9 as issued in July 2014 initially on 1 January 2018 and will early adopt the amendments to IFRS 9 on the same date. Based on the assessment undertaken to date, the total estimated adjustment of the adoption of IFRS 9 on the opening balance of the Groups equity at 1 January 2018 is approximately €12.4 million, representing:

- A reduction of approximately € 14.3 million due to impairment requirements
- An increase of approximately € 1.9 million related to classification and measurement requirements other than impairment

The European Parliament has issued as of 27 December 2017 a regulation (EU) 2017/2395 on transition requirements for the implementation of IFRS 9.

The regulation allows a choice of two approaches to the recognition of the impact of adoption of the standard on regulatory capital:
1. Phasing in the full impact on a straight-line basis over a five-year period; or
2. Recognizing the full impact on the day of adoption.

The Group has decided to adopt the first approach. The CET 1 will increase by approximately 3 BP. Should the Group adopted the second approach, the impact in CET 1 would have been a decrease by approximately 28 BP.
- The assessment made is preliminary as not all transition work requirements have been finalized and therefore may be subject to adjustment.
- The new standard will require the Bank to revise its accounting processes and internal controls, and these changes are not yet complete.
- The Bank has not finalized the testing and assessment of controls over its new IT systems. Consequently, the related impacts presented below may change when implementation is finalized.
- The systems and the associated controls that are in place to comply with the new requirements have not been operational for a full reporting period.
- The new accounting policies, assumptions, judgements and estimation techniques employed are subject to change until the Bank finalizes its first financial statements that include the date of initial application.

i) Classification and Measurement
IFRS 9 contains and new classification and measurement approach for financial assets that reflect the business model in which assets are managed and their cash flow characteristics.

For Group four classification categories for financial assets will be applied:
- Financial assets measured at amortized cost (AC)
- Financial assets measured at fair value through OCI (FVOCI) and
- Financial assets mandatory measured at fair value through profit or loss (FVTPL) and
- Financial assets designated measured at fair value through profit or loss (FVTPL).

IFRS 9 will affect the classification and measurement of financial assets held as at 1 January 2018 of the Group as follows:
- Loans and advances to banks and to customers that are classified as loans and receivables measured at amortized cost under IAS 39 will in general also be measured at amortized cost under IFRS 9. As at the date of the financial statements the benchmark test is in progress for a small portion of the portfolio.
- Held to maturity financial assets measured at amortized cost under IAS 39 will in general also be measured at amortized cost under IFRS 9.
- Available for Sale debt instruments measured at fair value through equity under IAS 39 will in general also be measured at FVOCI under IFRS 9.

ii) Hedge Accounting
IFRS 9 grants accounting options for hedge accounting. In case the Group would apply for hedge accounting in 2018, then it would apply the provisions on hedge accounting pursuant to IAS 39, also taking into account the changes in the disclosures in the notes pursuant to IFRS 7.

iii) Impairment
The calculation of expected credit losses requires the use of accounting estimates, which, by definition, will rarely equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instrument assets carried at AC and FVOCI and with the exposure arising from loan commitments, leasing receivables and financial guarantee contracts. The Group recognises a loss allowance for such losses at each reporting date.

This section provides an overview of the aspects of IFRS 9 that involve a higher degree of judgement or complexity and major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment within the next financial year.

Measurement of Expected Credit Losses
The measurement of expected credit losses reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and fair value through other comprehensive income is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour.

Significant judgements are required in applying the accounting requirements for measuring expected credit losses these are:
- Determining criteria for significant increase in credit risk;

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

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

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

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Group measures credit risk using probability of default (PD), exposure at default (EAD) and loss given default (LGD). This is the predominant approach used for the purposes of measuring expected credit losses under IFRS 9.

IFRS 9 prescribes a three-stage model for impairment based on changes in credit quality since initial recognition. This model requires that a financial instrument that is not credit-impaired on initial recognition is classified in Stage 1 and has its credit risk continuously monitored. If a significant increase in credit risk since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired. If the financial instrument is credit-impaired, the financial instrument is then moved to Stage 3.

Financial instruments in Stage 1 have their expected credit loss measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months.

Instruments in Stages 2 or 3 have their expected credit losses measured based on expected credit losses on a lifetime basis.

According to IFRS 9 when measuring expected credit losses it is necessary to consider forward-looking information. Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their expected credit loss is always measured on a lifetime basis.

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

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

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

- Qualitative Criteria
  The Group uses qualitative criteria as a secondary indicator of significant increase in credit risk for all material portfolios. A movement to Stage 2 takes place when the criteria below are met.
  For sovereign, bank, corporate and project finance portfolios, if the borrower meets one or more of the following criteria:
  – External market indicators
  – Changes in contract terms
  – Changes to management approach
  – Expert judgement

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

For retail portfolios, if the borrower meets one or more of the following criteria:
– Forbearance
– Expert judgement

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

• Backstop
A backstop is applied and the financial instrument considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments.
In some limited cases the presumption that financial assets that are more than 30 days past due are to be shown in Stage 2 is rebutted.

• Low Credit Risk Exemption
The Group has not used the low credit risk exemption for any lending business, however it selectively uses the low credit risk exemption for debt securities.

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

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

• Qualitative criteria
The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where:
– The borrower is in long-term forbearance;
– The borrower is deceased;
– The borrower is insolvent;
– The borrower is in breach of financial covenants;
– An active market for that financial asset has disappeared because of financial difficulties;
– Concessions have been made by the lender relating to the borrower's financial difficulty;
– It is becoming probable that the borrower will enter bankruptcy.
– Financial assets are purchased or originated at a deep discount that reflects the incurred credit losses

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

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

Explanation of inputs, assumptions and estimation techniques
The expected credit loss is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD. These assumptions vary by product type. Expected credit losses are the discounted product of the probability of default (PD), loss given default (LGD), exposure at default (EAD) and discount factor (D).

• Probability of Default

The probability of default represents the likelihood of a borrower defaulting on its financial obligation either over the next 12 months or over the remaining lifetime of the obligation. In general the lifetime probability of default is calculated using the regulatory 12 month probability of default, stripped of any margin of conservatism, as a starting point. Thereafter various statistical methods are used to generate an estimate of how the default profile will develop from the point of initial recognition throughout the lifetime of the loan or portfolio of loans. The profile is based on historical observed data and parametric functions.

Different models have been used to estimate the default profile of outstanding lending amounts and these can be grouped into the following categories:
– Sovereign, local and regional governments, insurance companies and collective investment undertakings the default profile is generated using a transition

matrix approach. Forward-looking information is incorporated into the probability of default using the Vasicek one factor model.
- Corporate customers, project finance and financial institutions the default profile is generated using a parametric survival regression (Weibull) approach. Forward-looking information is incorporated into the probability of default using the Vasicek one factor model.
- Retail mortgages and other retail lending the default profile is generated using parametric survival regression in competing risk frameworks. Forward-looking information is incorporated into the probability of default using satellite models.

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

• *Loss Given Default*

Loss given default represents the Group's expectation of the extent of loss on a defaulted exposure. Loss given default varies by type of counterparty and product. Loss given default is expressed as a percentage loss per unit of exposure at the time of default. Loss given default is calculated on a 12-month or lifetime basis, where 12-month loss given default is the percentage of loss expected to be made if the default occurs in the next 12 months and lifetime loss given default is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

Different models have been used to estimate the loss given default of outstanding lending amounts and these can be grouped into the following categories:
- Sovereign the loss given default is found by using market implied sources.
- Corporate customers, project finance, financial institutions, local and regional governments, insurance companies the loss given default is generated by discounting cash flows collected during the workout process. Forward-looking information is incorporated into the loss given default using the Vasicek model.
- Retail mortgages and other retail lending the loss given default is generated by stripping the downturn adjustments and other margins of conservatism from the regulatory loss given default. Forward-looking information is incorporated into the loss given default using various satellite models.
- In the limited circumstances where some inputs are not fully available alternative recovery models, benchmarking of inputs and expert judgement is used for the calculation.

• *Exposure at Default*

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

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

• *Discount Factor*

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

• *Calculation*

The expected credit loss is the product of PD, LGD and EAD times the probability not to default prior to the considered time period. The latter is expressed by the survivorship function S. This effectively calculates future values of expected credit losses, which are then discounted back to the reporting date and summed. The calculated values of expected credit losses are then weighted by forward-looking scenario.

Different models have been used to estimate the Stage 3 provisions of outstanding lending amounts and these can be grouped into the following categories:
- Sovereign, corporate customers, project finance, financial institutions, local and regional governments, insurance companies and collective investment undertakings the Stage 3 provisions are calculated by workout managers who discount expected cash flows by the appropriate effective interest rate.
- Retail mortgages the Stage 3 provision is generated by calculating the discounted collateral realization value.
- Other retail lending the Stage 3 provision is generated by calculating the statistically derived best estimate of expected loss that has been adjusted for indirect costs.

No attempt is made to rebut the presumption that financial assets which are more than 90 days past due are to be shown in Stage 3.

Forward-Looking Information

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

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

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

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

Sensitivity analysis

The most significant assumptions affecting the expected credit loss allowance are as follows:
- Corporate portfolios
  - Gross domestic product
  - Unemployment rate
  - Long term government bond rate
  - Inflation rate
- Retail portfolios
  - Gross domestic product
  - Unemployment rate
  - Real estate prices.

• *IFRS 15 Revenue from Contracts with Customers:* The standard is effective for annual periods beginning on or after 1 January 2018. IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. Group assessed that there is no material impact on the consolidated and separate financial statements.

• *IFRS 15: Revenue from Contracts with Customers (Clarifications):* The Clarifications apply for annual periods beginning on or after 1 January 2018 with earlier application permitted. The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 Revenue from Contracts with Customers, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach. Group assessed that there is no material impact on the consolidated and separate financial statements.

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

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

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

• *IFRIC interpretation 22:* Foreign Currency Transactions and Advance Consideration: the Interpretation is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income.

The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. This Interpretation has not yet been endorsed by the EU.

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

x) Segment reporting

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

An operating segment is a component of the Group:
(a) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group)
(b) whose operating results are regularly reviewed by the entity's chief operating decision maker to take decisions about resources to be allocated to the segment and assess its performance, and
(c) for which discrete financial information is available.

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

4. FINANCIAL RISK MANAGEMENT

a) Introduction and overview

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

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

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

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

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

Risk management framework

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

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

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

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

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

b) Credit risk

i) Credit risk management

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

Credit risk associated with trading and investing activities is managed through the Group's credit risk management process. The risk is mitigated through selecting counterparties of good financial standings and monitoring their activities and through the use of credit limits and when appropriate, by obtaining collateral. The Group's primary exposure to credit risk arises through its loans and advances to customers as well as from conduction of activities related to concluding finance lease contracts. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the balance sheet. The Group is exposed to credit risk on various other financial assets, including derivative instruments and debt investments, the current credit exposure in respect of these instruments is equal to the carrying amount of these assets in the balance sheet. In addition, the Group is exposed to off balance sheet credit risk through commitments to extend credit and guarantees issued (see Note 35). In order to minimize this risk, Group procedures are in place to screen the customers before granting the loans and lease contracts and to monitor their ability to repay the principal and interest during the duration of the loans and lease contracts and to establish exposure limits.

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

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

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

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

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

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

ii) Credit risk management

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

	GROUP		BANK	
IN RON THOUSANDS	31 DECEMBER 2017	31 DECEMBER 2016	31 DECEMBER 2017	31 DECEMBER 2016
RETAIL CUSTOMERS*, OF WHICH:				
Personal loan	**5,244,732**	**4,645,085**	**5,244,732**	**4,645,085**
Mortgage	**4,622,010**	**4,040,945**	**4,622,010**	**4,040,945**
Home equity	**1,662,033**	**1,944,249**	**1,662,033**	**1,944,249**
Credit Card	**2,516,014**	**2,152,308**	**2,516,014**	**2,152,308**
Overdraft	**1,596,525**	**1,440,046**	**1,596,525**	**1,440,046**
Investment financing	**861,496**	**520,966**	**514,190**	**520,966**
Other	**9,897**	**6,377**	**9,897**	**6,377**
NON-RETAIL CUSTOMERS, OF WHICH:				
Agriculture	**701,685**	**628,031**	**682,805**	**628,031**
Electricity, oil & gas	**1,713,364**	**1,010,665**	**1,713,188**	**1,010,665**
Manufacturing	**2,636,142**	**2,313,557**	**2,528,280**	**2,313,557**
Construction	**3,039,688**	**2,196,387**	**2,987,227**	**2,196,387**
Wholesale and retail trade	**4,110,003**	**3,819,098**	**3,996,636**	**3,819,098**
Services	**3,456,181**	**3,037,247**	**3,288,708**	**3,037,221**
Public sector	**573,966**	**707,999**	**573,088**	**707,999**
Total**	**32,743,736**	**28,462,960**	**31,935,333**	**28,462,934**

* Retail customers include individuals and SMEs with turnover below EUR 1,000,000 and maximum exposure of EUR 200,000.
** Out of total credit risk exposure at group level, the amount of RON 9,511,125 thousand represents off balance exposure (2016: RON 7,466,857 thousand) and at bank level, the amount of RON 9,470,420 thousand represents off balance exposure (2016: RON 7,466,857 thousand).

In the table below is presented the split of loans and advances to customers by credit quality:

		GROUP		BANK	
IN RON THOUSANDS	NOTE	31 DECEMBER 2017	31 DECEMBER 2016	31 DECEMBER 2017	31 DECEMBER 2016
IMPAIRED LOANS					
RETAIL CUSTOMERS, OF WHICH:					
Rating 1 (minimal risk)		50,895	891	50,895	891
Rating 2 (excellent credit standing)		44,172	1,187	44,172	1,187
Rating 3 (very good credit standing)		15,491	358	15,491	358
Rating 4 (good credit standing)		7,643	757	7,643	757
Rating 5 (average credit standing)		11,334	1,835	11,334	1,835
Rating 6 (mediocre credit standing)		16,694	1,405	16,694	1,405
Rating 7 (weak credit standing)		10,257	1,606	10,257	1,606
Rating 8 (very weak credit standing)		7,140	521	7,140	521
Rating 9 (doubtful and/or partial write off)		24,768	5,987	24,768	5,987
Rating 10 (default)		859,418	853,870	859,418	853,870
Un-rated		17,719	5,161	8,561	5,161
Gross amount		**1,065,531**	**873,578**	**1,056,373**	**873,578**
Specific allowance for impairment	20	(616,235)	(556,320)	(609,474)	(556,320)
Carrying amount		**449,296**	**317,258**	**446,899**	**317,258**
NON-RETAIL CUSTOMERS, OF WHICH:					
Rating 8 (weak credit sub-standard)		0	551	0	551
Rating 9 (very weak credit standard - doubtful)		0	8,048	0	8,048
Rating 10 (default)		342,888	562,770	314,736	562,744
Project finance*		88,525	149,515	88,525	149,515
Un-rated		0	12	0	12
Gross amount		**431,413**	**720,896**	**403,261**	**720,870**
Specific allowance for impairment	20	(246,049)	(390,888)	(227,659)	(390,888)
Carrying amount		**185,364**	**330,008**	**175,602**	**329,982**

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

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Notes to the Consolidated and Separate Financial Statements for the Year Ended 31 December 2017

IN RON THOUSAND	NOTE	GROUP 31 DECEMBER 2017	GROUP 31 DECEMBER 2016	BANK 31 DECEMBER 2017	BANK 31 DECEMBER 2016
PAST DUE BUT NOT IMPAIRED					
RETAIL CUSTOMERS, OF WHICH:					
Rating 1 (minimal risk)		3,394	7,790	3,394	7,790
Rating 2 (excellent credit standing)		12,595	28,210	12,595	28,210
Rating 3 (very good credit standing)		41,548	57,730	41,548	57,730
Rating 4 (good credit standing)		90,728	118,637	90,728	118,637
Rating 5 (average credit standing)		217,306	281,157	217,306	281,157
Rating 6 (mediocre credit standing)		246,878	215,140	246,878	215,140
Rating 7 (weak credit standing)		161,204	155,822	161,204	155,822
Rating 8 (very weak credit standing)		79,577	98,069	79,577	98,069
Rating 9 (doubtful and/or partial write off)		197,055	242,309	197,055	242,309
Rating 10 (default)*		22,964	37,149	22,964	37,149
Un-rated		42,765	11,403	15,406	11,403
Gross amount		**1,116,014**	**1,253,416**	**1,088,655**	**1,253,416**
Collective allowance for impairment	20	(63,807)	(89,604)	(63,289)	(89,604)
Carrying amount		**1,052,207**	**1,163,812**	**1,025,366**	**1,163,812**
NON-RETAIL CUSTOMERS, OF WHICH:					
Rating 3 (very good credit standing)		2,255	319	2,255	319
Rating 4 (good credit standing)		3,465	0	3,465	0
Rating 5 (sound credit standing)		203,337	107,314	203,337	107,314
Rating 6 (acceptable credit standing)		24,794	18,999	18,626	18,999
Rating 7 (marginal credit standing)		24,054	37,987	23,898	37,987
Rating 8 (weak credit standard – sub-standard)		9,589	2,514	16,185	2,514
Rating 9 (very weak credit standard – doubtful)		1,673	2,633	730	2,633
Rating 10 (default)		9,686	2,595	9,686	2,595
Project finance		120,685	243,620	120,685	243,620
Un-rated		1,054	253	1,054	253
Gross amount		**400,592**	**416,234**	**399,921**	**416,234**
Collective allowance for impairment	20	(2,303)	(1,613)	(2,204)	(1,613)
Carrying amount		**398,289**	**414,621**	**397,717**	**414,621**

* Over collateralised exposures which are individually analyzed.

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Notes to the Consolidated and Separate Financial Statements for the Year Ended 31 December 2017

IN RON THOUSAND	NOTE	GROUP 31 DECEMBER 2017	GROUP 31 DECEMBER 2016	BANK 31 DECEMBER 2017	BANK 31 DECEMBER 2016
NEITHER PAST DUE NOR IMPAIRED					
RETAIL CUSTOMERS, OF WHICH:					
Rating 1 (minimal risk)		2,507,149	3,694,531	2,507,149	3,694,531
Rating 2 (excellent credit standing)		3,649,357	2,380,723	3,649,357	2,380,723
Rating 3 (very good credit standing)		2,427,287	1,585,503	2,427,287	1,585,503
Rating 4 (good credit standing)		1,002,974	1,007,027	1,002,974	1,007,027
Rating 5 (average credit standing)		941,926	849,078	941,926	849,078
Rating 6 (mediocre credit standing)		534,230	534,131	534,230	534,131
Rating 7 (weak credit standing)		250,043	244,623	250,043	244,623
Rating 8 (very weak credit standing)		77,248	86,678	77,248	86,678
Rating 9 (doubtful and/or partial write off)		48,392	65,771	48,392	65,771
Rating 10 (default)*		11,932	14,377	11,932	14,377
Un-rated		406,848	91,852	109,298	91,853
Gross amount		**11,857,386**	**10,554,294**	**11,559,836**	**10,554,295**
Collective allowance for impairment	20	(106,624)	(157,720)	(106,441)	(157,720)
Carrying amount		**11,750,762**	**10,396,574**	**11,453,395**	**10,396,575**
NON-RETAIL CUSTOMERS, OF WHICH:					
Rating 1 (minimal risk)		13,343	35,751	13,295	35,751
Rating 2 (excellent credit standing)		124,342	374,106	124,104	374,106
Rating 3 (very good credit standing)		198,365	134,955	324,184	134,955
Rating 4 (good credit standing)		423,467	366,353	356,362	366,353
Rating 5 (sound credit standing)		1,656,527	1,405,471	1,545,411	1,405,471
Rating 6 (acceptable credit standing)		2,752,139	2,339,194	2,636,731	2,339,194
Rating 7 (marginal credit standing)		1,532,577	1,414,159	1,354,090	1,414,159
Rating 8 (weak credit standard – sub-standard)		176,817	305,551	138,776	305,551
Rating 9 (very weak credit standard – doubtful)		83,579	73,962	63,471	73,962
Rating 10 (default)*		17,285	10,098	17,285	10,098
Project finance		1,379,436	717,143	1,379,436	717,143
Un-rated		3,798	942	3,722	942
Gross amount		**8,361,675**	**7,177,685**	**7,956,867**	**7,177,685**
Collective allowance for impairment	20	(36,319)	(38,916)	(32,914)	(38,916)
Carrying amount		**8,325,356**	**7,138,769**	**7,923,953**	**7,138,769**
Total carrying amount loans and advances to customers		**22,161,274**	**19,761,042**	**21,422,932**	**19,761,017**

* Over collateralised exposures which are individually analyzed.

At Group level, loans and advances to banks in amount of RON 89,168 thousand (31 December 2016: RON 546,165 thousand), trading assets in amount of RON 86,298 thousand (31 December 2016: RON 443,694 thousand), derivative assets held for risk management in amount of RON 35,237 thousand (31 December 2016: RON 1,013 thousand), as well as investment securities in amount of RON 5,249,814 thousand (31 December 2016: RON 3,849,590 thousand), are all classified as current.

At bank level, loans and advances to banks in amount of RON 85,641 thousand (31 December 2016: RON 546,165 thousand), trading assets in amount of RON 86,775 thousand (31 December 2016: RON 443,758 thousand), derivative assets held for risk management in amount of RON 35,237 thousand (31 December 2016: RON 1,013 thousand), as well as investment securities in amount of RON 5,210,494 thousand (31 December 2016: RON 3,812,486 thousand), are all classified as current.

Loans and advances to banks as of 31 December, 2017 mainly represent balances in correspondent bank accounts and collateral deposits. Nostro accounts are always available to the Group, are not restricted, not overdue or impaired. Bank counterparties are financial institutions presenting strong financial solidity.

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

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

	GROUP		BANK	
IN RON THOUSAND	31 DECEMBER 2017	31 DECEMBER 2016	31 DECEMBER 2017	31 DECEMBER 2016
VALUE OF COLLATERALS HELD AGAINST IMPAIRED LOANS AND ADVANCES				
Property	**532,738**	500,517	**532,738**	500,517
Equipment, vehicles and other guarantees	**8,174**	7,080	**1,184**	7,080
Cash collateral deposit	**2,734**	2,462	**2,734**	2,462
Letters of guarantee	**18,749**	17,326	**15,964**	17,326
Debt securities	**8**	36	**8**	36
Total	**562,403**	**527,421**	**552,628**	**527,421**
VALUE OF COLLATERALS HELD AGAINST UNIMPAIRED LOANS AND ADVANCES				
Property	**5,969,156**	5,449,804	**5,967,648**	5,449,804
Equipment, vehicles and other guarantees	**1,444,153**	1,119,692	**810,640**	1,119,692
Cash collateral deposit	**92,927**	98,897	**90,915**	98,897
Letters of guarantee	**1,961,662**	1,848,463	**1,961,662**	1,848,463
Debt securities	**44,948**	36,441	**44,948**	36,441
Total	**9,512,846**	**8,553,297**	**8,875,813**	**8,553,297**

The Group holds collateral against loans and advances to customers in the form of pledge over cash deposits, mortgage interests over property, guarantees and other pledge over equipments and/or receivable. The value of the mortgage collaterals executed by the Group as a result of the enforcement was RON 73,044 thousand (2016: RON 95,737 thousand).

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

GROUP

	31 DECEMBER 2017			31 DECEMBER 2016		
IN RON THOUSAND	GROSS EXPOSURE	VALUE OF COLLATERALS	NET	GROSS EXPOSURE	VALUE OF COLLATERALS	NET
RETAIL CUSTOMERS, OF WHICH:	2,071,911	3,528,051	1,456,140	1,672,414	2,833,219	1,160,805
Personal loan	1,563	3,859	2,296	2,357	4,379	2,022
Mortgage	1,119,397	1,616,890	497,493	797,154	1,101,636	304,482
Home equity	572,165	1,148,004	575,839	595,117	1,151,973	556,856
Overdraft	96,591	227,105	130,514	97,879	220,654	122,775
Investment financing	276,083	521,857	245,774	179,795	354,299	174,504
Other	6,112	10,336	4,224	112	278	166
NON-RETAIL CUSTOMERS, OF WHICH:	2,116,904	3,859,876	1,742,972	2,408,185	3,727,287	1,319,102
Agriculture	101,461	231,784	130,323	91,600	162,434	70,834
Electricity, oil & gas	66,024	112,795	46,771	59,941	112,108	52,167
Manufacturing	331,821	603,110	271,289	253,165	508,977	255,812
Construction	555,297	908,013	352,716	688,347	888,074	199,727
Wholesale and retail trade	467,579	890,924	423,345	407,825	812,332	404,507
Services	586,002	1,102,769	516,767	843,877	1,119,362	275,485
Public sector	8,720	10,481	1,761	63,430	124,000	60,570
TOTAL	4,188,815	7,387,927	3,199,112	4,080,599	6,560,506	2,479,907

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

BANK

	31 DECEMBER 2017			31 DECEMBER 2016		
IN RON THOUSAND	GROSS EXPOSURE	VALUE OF COLLATERALS	NET	GROSS EXPOSURE	VALUE OF COLLATERALS	NET
RETAIL CUSTOMERS, OF WHICH:	**1,980,611**	**3,394,030**	**1,413,419**	**1,672,414**	**2,833,219**	**1,160,805**
Personal loan	1,563	3,859	2,296	2,357	4,379	2,022
Mortgage	1,119,397	1,616,890	497,493	797,154	1,101,636	304,482
Home equity	572,165	1,148,004	575,839	595,117	1,151,973	556,856
Overdraft	96,591	227,105	130,514	97,879	220,654	122,775
Investment financing	190,895	398,172	207,277	179,795	354,299	174,504
Other	0	0	0	112	278	166
NON-RETAIL CUSTOMERS, OF WHICH:	**2,029,734**	**3,719,846**	**1,690,112**	**2,408,185**	**3,727,287**	**1,319,102**
Agriculture	97,691	225,797	128,106	91,600	162,434	70,834
Electricity, oil & gas	66,024	112,795	46,771	59,941	112,108	52,167
Manufacturing	301,837	560,065	258,228	253,165	508,977	255,812
Construction	550,854	901,642	350,788	688,347	888,074	199,727
Wholesale and retail trade	456,012	872,077	416,065	407,825	812,332	404,507
Services	548,776	1,037,221	488,445	843,877	1,119,362	275,485
Public sector	8,540	10,249	1,709	63,430	124,000	60,570
TOTAL	**4,010,345**	**7,113,876**	**3,103,531**	**4,080,599**	**6,560,506**	**2,479,907**

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

GROUP

	31 DECEMBER 2017			31 DECEMBER 2016		
IN RON THOUSAND	GROSS EXPOSURE	VALUE OF COLLATERALS	NET	GROSS EXPOSURE	VALUE OF COLLATERALS	NET
RETAIL CUSTOMERS, OF WHICH:	11,967,020	3,803,834	(8,163,186)	11,008,874	3,402,637	(7,606,237)
Personal loan	5,243,169	5	(5,243,164)	4,642,728	5	(4,642,723)
Mortgage	3,502,614	2,781,193	(721,421)	3,243,791	2,456,412	(787,379)
Home equity	1,089,869	603,585	(486,284)	1,345,449	689,918	(655,531)
Credit Card	824,394	0	(824,394)	733,075	0	(733,075)
Overdraft	732,478	86,782	(645,696)	701,520	62,385	(639,135)
Investment financing	564,271	328,671	(235,600)	341,171	193,629	(147,542)
Other	10,225	3,598	(6,627)	1,140	288	(852)
NON-RETAIL CUSTOMERS, OF WHICH:	7,076,776	2,546,130	(4,530,646)	5,906,630	1,473,395	(4,433,235)
Agriculture	377,676	140,975	(236,701)	326,435	137,500	(188,935)
Electricity, oil & gas	282,960	47,111	(235,849)	210,524	25,130	(185,394)
Manufacturing	1,325,790	433,496	(892,294)	1,234,187	364,703	(869,484)
Construction	1,123,009	567,538	(555,471)	613,092	161,517	(451,575)
Wholesale and retail trade	1,872,288	694,387	(1,177,901)	1,754,050	479,983	(1,274,067)
Services	1,678,917	629,470	(1,049,447)	1,212,839	265,195	(947,644)
Public sector	416,136	33,153	(382,983)	555,503	39,367	(516,136)
TOTAL	**19,043,796**	**6,349,964**	**(12,693,832)**	**16,915,504**	**4,876,032**	**(12,039,472)**

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

BANK

	31 DECEMBER 2017			31 DECEMBER 2016		
IN RON THOUSAND	GROSS EXPOSURE	VALUE OF COLLATERALS	NET	GROSS EXPOSURE	VALUE OF COLLATERALS	NET
RETAIL CUSTOMERS, OF WHICH:	11,724,253	3,644,918	(8,079,335)	11,008,874	3,402,637	(7,606,237)
Personal loan	5,243,169	5	(5,243,164)	4,642,728	5	(4,642,723)
Mortgage	3,502,614	2,781,193	(721,421)	3,243,791	2,456,412	(787,379)
Home equity	1,089,869	603,585	(486,284)	1,345,449	689,918	(655,531)
Credit Card	824,394	0	(824,394)	733,075	0	(733,075)
Overdraft	732,478	86,782	(645,696)	701,520	62,385	(639,135)
Investment financing	323,295	170,697	(152,598)	341,171	193,629	(147,542)
Other	8,434	2,656	(5,778)	1,140	288	(852)
NON-RETAIL CUSTOMERS, OF WHICH:	6,730,315	2,238,943	(4,491,372)	5,906,605	1,473,395	(4,433,210)
Agriculture	362,989	132,232	(230,757)	326,435	137,500	(188,935)
Electricity, oil & gas	282,784	47,089	(235,695)	210,524	25,130	(185,394)
Manufacturing	1,260,995	397,292	(863,703)	1,234,187	364,703	(869,484)
Construction	1,072,274	530,027	(542,247)	613,092	161,517	(451,575)
Wholesale and retail trade	1,774,368	632,663	(1,141,705)	1,754,050	479,983	(1,274,067)
Services	1,561,467	466,994	(1,094,473)	1,212,814	265,195	(947,619)
Public sector	415,438	32,646	(382,792)	555,503	39,367	(516,136)
TOTAL	**18,454,568**	**5,883,861**	**(12,570,707)**	**16,915,479**	**4,876,032**	**(12,039,447)**

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

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

Notes to the Consolidated and Separate Financial Statements for the Year Ended 31 December 2017

GROUP

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

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

*Over collateralised exposures which are individually analyzed.

Loans and advances to customers past due but not impaired as of December 31, 2016 were as follows:

IN RON THOUSAND	< 30 DAYS	31 – 60 DAYS	61 – 90 DAYS	91 – 180 DAYS	181 DAYS – 1 YEAR	>1 YEAR*	TOTAL
Non retail customers	392,294	20,814	1,416	892	357	462	416,235
Retail customers	980,626	168,116	78,929	9,595	3,927	12,723	1,253,916
Total	**1,372,920**	**188,930**	**80,345**	**10,487**	**4,284**	**13,185**	**1,670,151**

*Over collateralised exposures which are individually analyzed.

BANK

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

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

*Over collateralised exposures which are individually analyzed.

Loans and advances to customers past due but not impaired as of December 31, 2016 were as follows:

IN RON THOUSAND	< 30 DAYS	31 – 60 DAYS	61 – 90 DAYS	91 – 180 DAYS	181 DAYS – 1 YEAR	>1 YEAR*	TOTAL
Non-retail customers	392,294	20,814	1,416	892	357	462	416,235
Retail customers	980,626	168,116	78,929	9,595	3,927	12,723	1,253,916
Total	**1,372,920**	**188,930**	**80,345**	**10,487**	**4,284**	**13,185**	**1,670,151**

*Over collateralised exposures which are individually analyzed.

Allowances for impairment

The Group sets-up an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually exposures, and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

An analysis of gross and carrying amount (taking into account the loan loss allowances) of individually impaired loans and advances on ratings is shown below:

31 DECEMBER 2017	GROUP		BANK	
IN RON THOUSAND	GROSS AMOUNT	CARRYING AMOUNT	GROSS AMOUNT	CARRYING AMOUNT
INDIVIDUALLY IMPAIRED LOANS AND ADVANCES TO CUSTOMERS				
RETAIL CUSTOMERS, OF WHICH:				
Rating 1 (minimal risk)	50,895	29,852	50,895	29,852
Rating 2 (excellent credit standing)	44,172	17,772	44,172	17,772
Rating 3 (very good credit standing)	15,491	5,341	15,491	5,341
Rating 4 (good credit standing)	7,643	2,650	7,643	2,650
Rating 5 (average credit standing)	11,334	4,310	11,334	4,310
Rating 6 (mediocre credit standing)	16,694	6,393	16,694	6,393
Rating 7 (weak credit standing)	10,257	2,917	10,257	2,917
Rating 8 (weak credit standard – sub-standard)	7,140	2,735	7,140	2,735
Rating 9 (very weak credit standard – doubtful)	24,768	7,543	24,768	7,543
Rating 10 (default)	859,418	365,607	859,418	365,607
Un-rated	17,719	4,176	8,561	1,779
Total Retail customers	**1,065,531**	**449,296**	**1,056,373**	**446,899**
NON-RETAIL CUSTOMERS, OF WHICH:				
Rating 10 (default)	342,888	155,131	314,736	145,369
Project Finance	88,525	30,233	88,525	30,233
Un-rated	–	–	–	–
Total Non-retail customers	**431,413**	**185,364**	**403,261**	**175,602**
Total	**1,496,944**	**634,660**	**1,459,634**	**622,501**

continued on next page

31 DECEMBER 2016	GROUP		BANK	
IN RON THOUSAND	GROSS AMOUNT	CARRYING AMOUNT	GROSS AMOUNT	CARRYING AMOUNT
INDIVIDUALLY IMPAIRED LOANS AND ADVANCES TO CUSTOMERS				
RETAIL CUSTOMERS, OF WHICH:				
Rating 1 (minimal risk)	891	426	891	426
Rating 2 (excellent credit standing)	1,187	620	1,187	620
Rating 3 (very good credit standing)	358	169	358	169
Rating 4 (good credit standing)	757	297	757	297
Rating 5 (average credit standing	1,835	611	1,835	611
Rating 6 (mediocre credit standing)	1,405	549	1,405	549
Rating 7 (weak credit standing)	1,606	744	1,606	744
Rating 8 (weak credit standard – sub-standard)	521	323	521	323
Rating 9 (very weak credit standard – doubtful)	5,987	2,420	5,987	2,420
Rating 10 (default)	853,870	309,659	853,870	309,659
Un-rated	5,161	1,440	5,161	1,439
Total Retail customers	**873,578**	**317,258**	**873,578**	**317,257**
NON-RETAIL CUSTOMERS, OF WHICH:				
Rating 8 (weak credit standard – sub-standard)	551	443	551	443
Rating 9 (very weak credit standard – doubtful)	8,048	6,943	8,048	6,943
Rating 10 (default)	562,770	266,749	562,744	266,748
Project Finance	149,515	55,870	149,515	55,846
Un-rated	12	3	12	3
Total Non-retail customers	**720,896**	**330,008**	**720,870**	**329,983**
TOTAL	**1,594,474**	**647,266**	**1,594,448**	**647,240**

Non-performing not defaulted exposure (NPE not defaulted)

Regulation for forborne and non-performing exposures
The regulation for forbearance pursuant to EBA/ITS/2013/03/rev1 from 24th of July 2014 and updated in 10th of March 2015 was implemented at Group level.

For reporting purposes, according to EBA ITS, non-performing exposures are considered those that satisfy at least one of the following conditions:
(a) The exposure was classified as default;
(b) The exposure was impaired according to IAS 39 "Financial Instruments: Recognition and Measurement";
(c) Performing restructured exposure that was reclassified from non-performing exposure and for which the restructuring measures have been extended during the monitoring time frame;
(d) Performing restructured exposure that was reclassified from non-performing exposure and for which number of days past due reached more that 30 days during the monitoring time frame.

Non-retail
For non-retail clients, when terms or loan conditions are modified in favour of the customer, the Group differentiates between normal renegotiation and forborne loans according to the definition of the EBA document "Implementing Technical Standard (ITS) on Supervisory Reporting (Forbearance and non-performing exposures)". Non-performing exposure according to EBA definition includes exposure without any reason for default according to Article 178 CRR.

Loans are defined as forborne loans if the debtor is assessed to be in financial difficulties and the modification is assessed as concession. For non-retail customers, financial difficulties are measured by means of an internal early warning system that is based on numerous representative and accepted input factors for customers risk classification (e.g. due days, rating downgrade etc.).

IAS 39 "Financial Instruments: Recognition and Measurement" requires that impairment must be derived from an incurred loss event; default according to Article 178 CRR is still the main indicators for individual and portfolio (based loan loss provisions).

Retail
For retail customers, the restructured loans are the subject of probation period for at least three months, extended to one year if the customer not passed the observation period. During this probation period the customer is reported as individually impaired based on days past due computed considering the days past due before restructuring and past due registered after restructuring. The restructuring loss is included in the provision amount and is calculated as the difference between future cash flows following the restructuring discounted at the effective interest rate before restructure and loan exposure (principal, interest and fees).

In the case of a non-performing exposure to Micro SME, the non-performing status is in principle considered to apply at debtor level.

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

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

c) Liquidity risk

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

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

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

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

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

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

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

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

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

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

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

The main tools used for stress conditions are:

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

GROUP

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

IN RON THOUSAND	UP TO 3 MONTHS	3 MONTHS TO 1 YEAR	1 YEAR TO 5 YEARS	OVER 5 YEARS	WITHOUT MATURITY*	TOTAL
FINANCIAL ASSETS						
Cash and cash with Central Bank	8,471,977	–	–	–	–	8,471,977
Trading assets	9,090	14,777	51,491	10,940	–	86,298
Derivative assets held for risk management	23,450	2,303	7,438	2,046	–	35,237
Loans and advances to banks	89,168	–	–	–	–	89,168
Loans and advances to customers	2,869,409	4,519,446	9,192,297	5,580,122	–	22,161,274
Investment securities	979,449	1,012,929	2,671,036	552,856	33,544	5,249,814
Total financial assets	**12,442,543**	**5,549,455**	**11,922,262**	**6,145,964**	**33,544**	**36,093,768**
FINANCIAL LIABILITIES						
Trading liabilities	8,361	9,631	10,221	1,078	–	29,291
Derivative liabilities held for risk management	21,621	25,912	3,245	66	–	50,844
Deposits from banks	500,439	–	7,850	–	–	508,289
Deposits from customers	25,899,848	3,549,750	212,891	33,510	–	29,695,999
Loans from banks and other financial institutions	118,867	291,650	515,546	5,895	–	931,958
Debt securities issued	–	16,613	495,888	–	–	512,501
Subordinated liabilities	5,791	116,483	726,743	–	–	849,017
Total financial liabilities	**26,554,927**	**4,010,039**	**1,972,384**	**40,549**	**–**	**32,577,899**
Maturity surplus/(shortfall)	**(14,112,384)**	**1,539,416**	**9,949,878**	**6,105,415**	**33,544**	**3,515,869**

* Without maturity category includes equity instruments

GROUP

The financial assets and liabilities analyzed over the remaining period from 31 December 2016 to contractual maturity are as follows:

IN RON THOUSAND	UP TO 3 MONTHS	3 MONTHS TO 1 YEAR	1 YEAR TO 5 YEARS	OVER 5 YEARS	WITHOUT MATURITY	TOTAL
FINANCIAL ASSETS						
Cash and cash with Central Bank	8,203,157	–	–	–	–	8,203,157
Trading assets	26,805	43,900	317,251	55,738	–	443,694
Derivative assets held for risk management	–	–	1,013	–	–	1,013
Loans and advances to banks	546,165	–	–	–	–	546,165
Loans and advances to customers	3,769,230	3,730,445	7,162,371	5,098,996	–	19,761,042
Investment securities	270,878	1,187,223	2,128,711	235,418	27,360	3,849,590
Total financial assets	**12,816,235**	**4,961,568**	**9,609,346**	**5,390,152**	**27,360**	**32,804,661**
FINANCIAL LIABILITIES						
Trading liabilities	25,402	13,689	18,602	2,431	–	60,124
Derivative liabilities held for risk management	–	19	4,101	–	–	4,120
Deposits from banks	568,545	–	14,469	–	–	583,014
Deposits from customers	22,559,236	3,594,078	190,751	30,879	–	26,374,944
Loans from banks and other financial institutions	86,855	564,773	485,959	–	–	1,137,587
Debt securities issued	–	16,482	495,757	–	–	512,239
Subordinated liabilities	119,086	–	835,887	–	–	954,973
Total financial liabilities	**23,359,124**	**4,189,041**	**2,045,526**	**33,310**	**–**	**29,627,001**
Maturity surplus/(shortfall)	**(10,542,889)**	**772,527**	**7,563,820**	**5,356,842**	**27,360**	**3,177,660**

BANK

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

IN RON THOUSAND	UP TO 3 MONTHS	3 MONTHS TO 1 YEAR	1 YEAR TO 5 YEARS	OVER 5 YEARS	WITHOUT MATURITY	TOTAL
FINANCIAL ASSETS						
Cash and cash with Central Bank	8,471,851	–	–	–	–	8,471,851
Trading assets	9,567	14,777	51,491	10,940	–	86,775
Derivative assets held for risk management	23,450	2,303	7,438	2,046	–	35,237
Loans and advances to banks	85,641	–	–	–	–	85,641
Loans and advances to customers	2,758,230	4,306,067	8,796,058	5,562,577	–	21,422,932
Investment securities	958,879	999,884	2,665,336	552,851	33,544	5,210,494
Total financial assets	**12,307,618**	**5,323,031**	**11,520,323**	**6,128,414**	**33,544**	**35,312,930**
FINANCIAL LIABILITIES						
Trading liabilities	8,673	9,631	10,221	1,078	–	29,603
Derivative liabilities held for risk management	21,183	25,751	3,245	66	–	50,245
Deposits from banks	500,439	–	7,850	–	–	508,289
Deposits from customers	25,940,597	3,549,750	212,891	33,510	–	29,736,748
Loans from banks and other financial institutions	40,243	87,058	107,404	5,895	–	240,600
Debt securities issued	–	16,734	499,489	–	–	516,223
Subordinated liabilities	5,791	116,483	726,743	–	–	849,017
Total financial liabilities	**26,516,926**	**3,805,407**	**1,567,843**	**40,549**	**–**	**31,930,725**
Maturity surplus/(shortfall)	**(14,209,308)**	**1,517,624**	**9,952,480**	**6,087,865**	**33,544**	**3,382,205**

BANK

The financial assets and liabilities analyzed over the remaining period from the balance sheet date to contractual maturity are as of 31 December 2016 as follows:

IN RON THOUSAND	UP TO 3 MONTHS	3 MONTHS TO 1 YEAR	1 YEAR TO 5 YEARS	OVER 5 YEARS	WITHOUT MATURITY	TOTAL
FINANCIAL ASSETS						
Cash and cash with Central Bank	8,203,153	–	–	–	–	8,203,153
Trading assets	26,869	43,900	317,251	55,738	–	443,758
Derivative assets held for risk management	–	–	1,013	–	–	1,013
Loans and advances to banks	546,165	–	–	–	–	546,165
Loans and advances to customers	3,769,205	3,730,445	7,162,371	5,098,996	–	19,761,017
Investment securities	254,941	1,186,693	2,108,079	235,418	27,355	3,812,486
Total financial assets	**12,800,333**	**4,961,038**	**9,588,714**	**5,390,152**	**27,355**	**32,767,592**
FINANCIAL LIABILITIES						
Trading liabilities	25,402	13,689	18,602	2,431	–	60,124
Derivative liabilities held for risk management	–	–	4,101	–	–	4,101
Deposits from banks	568,545	–	14,469	–	–	583,014
Deposits from customers	22,566,133	3,594,078	190,751	30,879	–	26,381,841
Loans from banks and other financial institutions	86,855	564,773	485,959	–	–	1,137,587
Debt securities issued	–	16,483	499,478	–	–	515,961
Subordinated liabilities	119,086	–	835,887	–	–	954,973
Total financial liabilities	**23,366,021**	**4,189,023**	**2,049,247**	**33,310**	**–**	**29,637,601**
Maturity surplus/(shortfall)	**(10,565,688)**	**772,015**	**7,539,467**	**5,356,842**	**27,355**	**3,129,991**

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

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

The negative liquidity gap on the first bucket has increased in 2017 by RON 3,569,495 thousands versus 2016, being generated by the increase in customer deposits.

As regards to the other buckets, the increase by RON 2,386,058 thousands in the 1-5 years bucket is due to: increase of loans and advances to customer by RON 2,029,926 thousands and higher investment securities by RON 542,325 thousands in this time bucket.

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

Notes to the Consolidated and Separate Financial Statements for the Year Ended 31 December 2017

GROUP

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

IN RON THOUSAND	UP TO 3 MONTHS	3 MONTHS TO 1 YEAR	1 YEAR TO 5 YEARS	OVER 5 YEARS	TOTAL
FINANCIAL LIABILITIES					
Net settled trading liabilities	1,729	5,235	4,297	–	11,261
Gross settled trading liabilities	1,578,364	1,258,826	–	–	2,837,190
Net settled derivative liabilities held for risk management	12	587	598	–	1,197
Gross settled derivative liabilities held for risk management	11,122,767	3,708,047	–	–	14,830,814
Deposits from banks	500,455	–	8,196	–	508,651
Deposits from customers	25,937,679	3,554,670	214,323	33,650	29,740,322
Loans from banks	40,252	87,378	107,542	5,895	241,067
Debt securities issued	–	26,770	523,147	–	549,917
Subordinated liabilities	10,409	147,169	799,925	–	957,503
Irrevocable credit lines	627,046	459,173	1,760,552	903,874	3,750,645
Contingent liabilities	19,111	25,815	31,943	3,685	80,554
Total financial liabilities	**39,837,824**	**9,273,670**	**3,450,523**	**947,104**	**53,509,121**

Financial liabilities analyzed over the remaining period from the balance sheet date by using undiscounted cash flows as of 31 December 2016 are as follows:

IN RON THOUSAND	UP TO 3 MONTHS	3 MONTHS TO 1 YEAR	1 YEAR TO 5 YEARS	OVER 5 YEARS	TOTAL
FINANCIAL LIABILITIES					
Net settled trading liabilities	1,309	5,298	11,128	–	17,735
Gross settled trading liabilities	2,543,276	1,808,276	2,722	1,115	4,355,389
Net settled derivative liabilities held for risk management	603	56	1,173	–	1,832
Gross settled derivative liabilities held for risk management	830	3,156	5,932	–	9,918
Deposits from banks	570,776	–	14,469	–	585,245
Deposits from customers	22,591,593	3,573,335	216,059	8,641	26,389,628
Loans from banks	88,071	567,547	487,134	–	1,142,752
Debt securities issued	–	26,774	549,778	–	576,552
Subordinated liabilities	11,208	145,247	949,169	–	1,105,624
Irrevocable credit lines	618,631	332,266	1,587,119	246,276	2,784,292
Contingent liabilities	5,270	47,608	29,738	6,218	88,834
Total financial liabilities	**26,431,567**	**6,509,563**	**3,854,421**	**262,250**	**37,057,801**

BANK

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

IN RON THOUSAND	UP TO 3 MONTHS	3 MONTHS TO 1 YEAR	1 YEAR TO 5 YEARS	OVER 5 YEARS	TOTAL
FINANCIAL LIABILITIES					
Net settled trading liabilities	1,728	5,235	4,297	–	11,260
Gross settled trading liabilities	1,578,364	1,267,502	–	–	2,845,866
Net settled derivative liabilities held for risk management	12	587	598	–	1,197
Gross settled derivative liabilities held for risk management	11,122,767	3,708,047	–	–	14,830,814
Deposits from banks	500,455	–	8,196	–	508,651
Deposits from customers	25,942,032	3,554,670	214,323	33,650	29,744,675
Loans from banks	40,251	87,378	107,542	5,896	241,067
Debt securities issued	–	26,891	526,750	–	553,641
Subordinated liabilities	10,409	147,169	799,925	–	957,503
Irrevocable credit lines	627,046	459,173	1,760,552	903,874	3,750,645
Contingent liabilities	19,111	25,815	31,943	3,685	80,554
Total financial liabilities	**39,842,175**	**9,282,467**	**3,454,126**	**947,105**	**53,525,873**

Financial liabilities analyzed over the remaining period from the reporting date by using undiscounted cash flows as of 31 December 2016 are as follows:

IN RON THOUSAND	UP TO 3 MONTHS	3 MONTHS TO 1 YEAR	1 YEAR TO 5 YEARS	OVER 5 YEARS	TOTAL
FINANCIAL LIABILITIES					
Net settled trading liabilities	1,309	5,298	10,864	263	17,733
Gross settled trading liabilities	2,543,276	1,808,267	2,722	1,115	4,355,380
Net settled derivative liabilities held for risk management	603	56	1,173	–	1,832
Gross settled derivative liabilities held for risk management	830	3,156	5,932	–	9,918
Deposits from banks	570,775	–	14,469	–	585,244
Deposits from customers	22,598,489	3,573,335	216,059	8,641	26,396,524
Loans from banks	88,071	567,547	487,134	1	1,142,753
Debt securities issued	–	26,771	553,504	–	580,275
Subordinated liabilities	11,208	145,247	949,169	–	1,105,624
Irrevocable credit lines	618,631	332,266	1,587,119	246,276	2,784,292
Contingent liabilities	5,270	47,608	29,738	6,218	88,834
Total financial liabilities	**26,438,461**	**6,509,551**	**3,857,883**	**262,514**	**37,068,409**

d) Market risk

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

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

The VaR of a trading portfolio is the maximum estimated loss that can arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). In 2017, the VaR model used by the Group is based upon a 99% confidence level and assumes a 1-day holding period.

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

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

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

A summary of the VaR position of the Group's trading portfolios at December 31, 2017 and 2016 and during the period is as follows (trading portfolio includes trading assets and trading liabilities as well as the overall FX position of the Group):

IN RON THOUSAND	AT 31 DECEMBER	AVERAGE RISK	MAXIMUM RISK	MINIMUM RISK
2017				
Foreign currency risk*	669	427	1,046	25
Interest-rate risk	360	1,014	5,982	113
Total	**1,03**	**1,442**	**7,028**	**138**
2016				
Foreign currency risk*	642	460	1,775	44
Interest-rate risk	1,107	542	1,638	161
Total	**1,749**	**1,002**	**3,412**	**204**

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

A summary of the VaR position of the Bank's trading portfolios at December 31, 2017 and 2016 and during the period is as follows (trading portfolio includes trading assets and trading liabilities as well as the overall FX position of the Bank):

IN RON THOUSAND	AT 31 DECEMBER	AVERAGE RISK	MAXIMUM RISK	MINIMUM RISK
2017				
Foreign currency risk*	642	427	1,046	25
Interest-rate risk	360	1,014	5,982	113
Total	**1,002**	**1,442**	**7,028**	**138**
2016				
Foreign currency risk*	634	460	1,775	44
Interest-rate risk	1,090	542	1,638	161
Total	**1,723**	**1,002**	**3,412**	**204**

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

Exposure to interest rate risk for non-trading portfolios

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

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

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

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

A summary of the Group's interest rate gap position on non-trading portfolios as at 31 December 2016 is as follows:

IN RON THOUSAND	LESS THAN 3 MONTHS	3 – 12 MONTHS	1 – 5 YEARS	OVER 5 YEARS	WITHOUT MATURITY	TOTAL
ASSETS						
Cash and cash with Central Bank	6.675.371	0	0	0	1.527.786	8.203.157
Loans and advances to banks	546.165	0	0	0	0	546.165
Loans and advances to customers	12.640.363	4.833.969	2.189.409	97.301	0	19.761.042
Investment securities	419.902	1.226.351	2.059.197	144.140	0	3.849.590
	20.281.801	**6.060.320**	**4.248.606**	**241.441**	**1.527.786**	**32.359.954**
LIABILITIES						
Deposits from banks	569.644	0	13.370	0	0	583.014
Deposits from customers	15.732.521	4.351.917	6.287.071	3.435	0	26.374.944
Loans from banks and other financial institutions	1.122.450	7.568	7.569	0	0	1.137.587
Debt securities issued	0	16.356	495.883	0	0	512.239
Subordinated liabilities	954.973	0	0	0	0	954.973
	18.379.588	**4.375.841**	**6.803.893**	**3.435**	**0**	**29.562.757**
Effect of derivatives held for risk management purposes	196.644	0	-193.108	0	0	3.536
Net position	**2.098.857**	**1.684.479**	**-2.748.395**	**238.006**	**1.527.786**	**2.800.733**

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

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

A summary of the Bank's interest rate gap position on non-trading portfolios as at 31 December 2016 is as follows:

IN RON THOUSAND	LESS THAN 3 MONTHS	3 – 12 MONTHS	1 – 5 YEARS	OVER 5 YEARS	WITHOUT MATURITY	TOTAL
ASSETS						
Cash and cash with Central Bank	6,675,367	–	–	–	1,527,786	8,203,153
Loans and advances to banks	546,165	–	–	–	–	546,165
Loans and advances to customers	12,640,339	4,833,969	2,189,409	97,300	–	19,761,017
Investment securities	403,964	1,225,937	2,038,444	144,141	–	3,812,486
	20,265,835	**6,059,906**	**4,227,853**	**241,441**	**1,527,786**	**32,322,821**
LIABILITIES						
Deposits from banks	569,645	–	13,369	–	–	583,014
Deposits from customers	15,739,418	4,351,917	6,287,071	3,435	–	26,381,841
Loans from banks and other financial institutions	1,122,450	7,568	7,569	–	–	1,137,587
Debt securities issued	–	16,478	499,483	–	–	515,961
Subordinated liabilities	954,973	–	–	–	–	954,973
	18,386,486	**4,375,963**	**6,807,492**	**3,435**	**–**	**29,573,376**
Effect of derivatives held for risk management purposes	196,644	–	(193,108)	–	–	3,536
Net position	**2,075,993**	**1,683,943**	**(2,772,747)**	**238,006**	**1,527,786**	**2,752,981**

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

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

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

IN RON THOUSAND	200 BP INCREASE	200 BP DECREASE
AT 31 DECEMBER 2017	**155,610**	**(167,520)**
Average for the period	154,630	(163,800)
Minimum for the period	140,223	(148,029)
Maximum for the period	168,947	(180,095)
AT 31 DECEMBER 2016	**192,129**	**(216,617)**
Average for the period	166,095	(184,524)
Minimum for the period	131,051	(140,145)
Maximum for the period	192,129	(216,617)

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

IN RON THOUSAND	200 BP INCREASE	200 BP DECREASE
AT 31 DECEMBER 2017	**156,103**	**(168,038)**
Average for the period	154,717	(164,573)
Minimum for the period	140,878	(148,719)
Maximum for the period	169,605	(180,787)
AT 31 DECEMBER 2016	**193,240**	**(217,807)**
Average for the period	166,128	(185,916)
Minimum for the period	127,627	(141,890)
Maximum for the period	193,240	(217,807)

Notes to the Consolidated and Separate Financial Statements for the Year Ended 31 December 2017

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

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

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

IN RON MILLION

APPLIED SHOCK ON NET INTEREST INCOME*	2017	2016
Parallel +200 bp	217	189
Parallel -200 bp	(266)	(218)
Steepening 5Y +200 bp	25	21
Flattening 5Y -200 bp	(28)	(22)
Flattening 1D +200 bp	192	168
Steepening 1D -200 bp	(233)	(193)
Maximum positive impact in 2017	273	273
Maximum negative impact in 2017	(316)	(295)

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

The interest rates related to the local currency and the major foreign currencies as at 31 December 2017 and 2016 were as follows:

CURRENCIES	INTEREST RATE	31 DECEMBER 2017	31 DECEMBER 2016
RON	ROBOR 3 months	2.05%	0.90%
EUR	EURIBOR 3 months	-0.33%	-0.32%
EUR	EURIBOR 6 months	-0.27%	-0.22%
USD	LIBOR 6 months	1.84%	1.32%

Notes to the Consolidated and Separate Financial Statements for the Year Ended 31 December 2017

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

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

The following table shows the interest rates per annum obtained or offered by the Group for its interest-bearing assets and liabilities during the 2016 financial year:

	AVERAGE INTEREST RATE		
	RON	EUR	USD
ASSETS			
Current accounts with National Bank of Romania	0.12%	0.07%	0.06%
Trading assets	3.40%	2.20%	0.09%
Loans and advances to banks	0.37%	-0.42%	0.44%
Investment securities	2.52%	2.28%	4.46%
Loans and advances to customers	5.78%	4.03%	3.75%
LIABILITIES			
Deposits from banks	0.21%	1.59%	1.03%
Deposits from customers	0.54%	0.52%	0.23%
Loans from banks and other financial institutions	3.92%	0.99%	N/A
Subordinated liabilities	N/A	4.76%	N/A

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

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

The following table shows the interest rates per annum obtained or offered by the Bank for its interest-bearing assets and liabilities during the 2016 financial year:

	AVERAGE INTEREST RATE		
	RON	EUR	USD
ASSETS			
Current accounts with National Bank of Romania	0.12%	0.07%	0.06%
Trading assets	3.40%	2.20%	0.09%
Loans and advances to banks	0.37%	-0.42%	0.44%
Investment securities	2.52%	2.28%	4.46%
Loans and advances to customers	5.78%	4.03%	3.75%
LIABILITIES			
Deposits from banks	0.21%	1.59%	1.03%
Deposits from customers	0.54%	0.52%	0.23%
Loans from banks and other financial institutions	3.92%	0.99%	N/A
Subordinated liabilities	N/A	4.76%	N/A

Exposure to currency risk

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

GROUP

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

IN RON THOUSANDS	RON	USD	EUR	OTHER	TOTAL
MONETARY ASSETS					
Cash and cash with Central Bank	4,950,531	30,999	3,447,952	42,495	8,471,977
Trading assets	58,745	1,936	25,617	–	86,298
Derivative assets held for risk management	23,801	–	11,436	–	35,237
Loans and advances to banks	27,573	6,447	48,866	6,282	89,168
Loans and advances to customers*	14,431,593	551,862	6,543,078	634,741	22,161,274
Investment securities	4,010,332	156,068	1,083,190	224	5,249,814
Investment in subsidiaries, associates and joint ventures	23,911	–	–	–	23,911
Tax receivable	541	–	–	–	541
Other assets	183,146	1,116	57,885	937	243,084
Total monetary assets	**23,710,173**	**748,428**	**11,218,024**	**684,679**	**36,361,304**
MONETARY LIABILITIES					
Trading liabilities	15,847	1794	11,650	–	29,291
Derivative liabilities held for risk management	3,407	–	43,317	4,120	50,844
Deposits from banks	478,983	8,126	20,900	280	508,289
Deposits from customers	18,686,237	1,471,388	9,261,366	277,008	29,695,999
Loans from banks and other financial institutions	195,928	–	736,013	17	931,958
Debt securities issued	512,501	–	–	–	512,501
Subordinated liabilities	–	–	681,374	167,643	849,017
Other liabilities	258,541	46,219	180,732	5,437	490,929
Total monetary liabilities	**20,151,444**	**1,527,527**	**10,935,352**	**454,505**	**33,068,828**
Net currency position	**3,558,729**	**(779,099)**	**282,672**	**230,174**	**3,292,476**

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

GROUP

The monetary assets and liabilities held in RON and in foreign currencies at 31 December 2016 are presented below:

IN RON THOUSAND	RON	USD	EUR	OTHER	TOTAL
MONETARY ASSETS					
Cash and cash with Central Bank	4,843,585	32,051	3,276,105	51,416	8,203,157
Trading assets	429,134	73	14,487	–	443,694
Derivative assets held for risk management	15	–	998	–	1,013
Loans and advances to banks	168,274	5,721	364,923	7,247	546,165
Loans and advances to customers*	12,542,659	710,854	5,614,791	892,738	19,761,042
Investment securities	3,063,900	73,556	712,134	–	3,849,590
Investment in subsidiaries, associates and joint ventures	69,122	–	–	–	69,122
Tax receivable	12,775	–	–	–	12,775
Other assets	105,101	2,369	21,700	34,183	163,353
Total monetary assets	**21,234,565**	**824,624**	**10,005,138**	**985,584**	**33,049,911**
MONETARY LIABILITIES					
Trading liabilities	58,342	73	1,709	–	60,124
Derivative liabilities held for risk management	1,247	–	2,873	–	4,120
Deposits from banks	423,423	9,948	148,704	939	583,014
Deposits from customers	16,779,455	1,352,496	8,019,774	223,219	26,374,944
Loans from banks and other financial institutions	299,673	–	635,057	202,857	1,137,587
Debt securities issued	512,239	–	–	–	512,239
Subordinated liabilities	–	–	777,499	177,474	954,973
Other liabilities	296,815	18,622	120,581	4,567	440,585
Total monetary liabilities	**18,371,194**	**1,381,139**	**9,706,197**	**609,056**	**30,067,586**
Net currency position	**2,863,371**	**(556,515)**	**298,941**	**376,528**	**2,982,325**

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

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

BANK

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

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

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

Notes to the Consolidated and Separate Financial Statements for the Year Ended 31 December 2017

BANK

The monetary assets and liabilities held in RON and in foreign currencies at 31 December 2016 are presented below:

IN RON THOUSAND	RON	USD	EUR	OTEHR	TOTAL
MONETARY ASSETS					
Cash and cash with Central Bank	4,843,581	32,051	3,276,105	51,416	8,203,153
Trading assets	429,198	73	14,487	–	443,758
Derivative assets held for risk management	15	–	998	–	1,013
Loans and advances to banks	168,274	5,721	364,923	7,247	546,165
Loans and advances to customers*	12,542,486	710,854	5,614,939	892,738	19,761,017
Investment securities	3,039,934	73,556	698,996	–	3,812,486
Investment in subsidiaries, associates and joint ventures	62,655	–	–	–	62,655
Tax receivable	12,775	–	–	–	12,775
Other assets	108,504	2,369	21,700	34,183	166,756
Total monetary assets	**21,207,422**	**824,624**	**9,992,148**	**985,584**	**33,009,778**
MONETARY LIABILITIES					
Trading liabilities	58,342	73	1,709	–	60,124
Derivative liabilities held for risk management	1,228	–	2,873	–	4,101
Deposits from banks	423,423	9,948	148,704	939	583,014
Deposits from customers	16,785,935	1,352,522	8,020,165	223,219	26,381,841
Loans from banks and other financial institutions	299,673	–	635,057	202,857	1,137,587
Debt securities issued	515,961	–	–	–	515,961
Subordinated liabilities	–	–	777,499	177,474	954,973
Other liabilities	295,456	18,622	120,581	4,567	439,226
Total monetary liabilities	**18,380,018**	**1,381,165**	**9,706,588**	**609,056**	**30,076,827**
Net currency position	**2,827,404**	**(556,541)**	**285,560**	**376,528**	**2,932,951**

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

e) Operational risk

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

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

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

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

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

f) Capital management

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

Regulation (EU) no 575/2013 of the European Parliament and of the Council requires that the Group maintain a minimum Common Equity Tier 1 capital ratio of 4.5%, a minimum Tier 1 capital ratio of 6% and a minimum total capital ratio of 8%. The capital adequacy ratio is calculated dividing total Group's own funds to the total risk-weighted assets (Note 37).

Capital allocation

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

The Group complies with the regulatory requirements regarding capital adequacy as at 31 December 2017 and 2016, being above the minimum required values.

5. USE OF ESTIMATES AND JUDGMENTS

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

Impairment losses on loans and advances

The Group reviews its loan portfolios to assess impairment on a monthly basis. As to determining whether an impairment loss should be recorded in the consolidated statement of comprehensive income, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before it's decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Group.

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

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

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

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

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

The actual amount of the allowances depends on the accuracy of the estimated future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances.

To determine the impairment allowances sensitivity to changes in risk parameters (adjusted value of real estate collateral, probability of default) underlying provisioning computation, the Group has drawn up the following scenarios:

First scenario assumes changes in loss given default and price guarantees for retail real estate portfolio for the entire portfolio, taking into account a variation of +/-5%. In this scenario the provision for loan impairment loss would have been increased by RON 31,632 thousand (2016: increased by RON 15,235 thousand) or decreased by RON 27,027 thousand (2016: decreased by RON 14,791 thousand).

Second scenario assumes PD variation of +/-5%. In this scenario the provision for loan impairment loss would have been increased by RON 10,303 thousand (2016: increased by 10,589 thousand RON) or decreased by RON 10,582 thousand (2016: decreased by RON 10,598 thousand|).

Third scenario assumes aggregation assumptions of the previous scenarios. In this scenario the provision for loan impairment loss would have been increased by RON 42,355 thousand (2016: increased by RON 26,250 thousand) or decreased by RON 37,175 thousand (2016: decreased by RON 24,963 thousand).

Parameters change by +/-5% are done in relation to the values used in provision calculation for December 2017 figures (December 2016).

Fair value of financial instruments

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

Valuation of financial instruments

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

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

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

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

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

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

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

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

The fair value of the unimpaired customer loans was determined based on the cash flows estimated to be generated by the portfolio. These amounts were discounted using the interest rates that would be currently offered by the Group to clients for similar products (the available offer as of the valuation date or loans granted during the last 6 months), by considering the characteristics of each loan, namely product type, currency, remaining tenor, interest rate type, customer segmentation. For the products no longer in the Group's offer, and for which no current market (observed interest rates are available, following assumptions were used: similar products' prevailing margins for discounting, adjusted with the relevant market rate index correspondent to the particular products' currencies, the swap points required for the currency conversion (if applicable) and remaining tenors.

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

The fair value of deposits from customers portfolio was determined based on the interest rate differential of the current portfolio as of end 2017 and the prevailing interest rates offered by the Group, during the last month of the current financial period, for deposits.

For the term deposits, a discounted cash flows calculation was performed using for discounting the interest rates pertaining to the new deposits opened during December 2017 with tenors, currencies and client types similar to the structure of the portfolio subject to the fair value calculation.

The fair value of the current accounts and savings accounts from clients was estimated to be equal to the book value, with no evidence of product characteristics requiring a different value than the one currently in accounting books. The results show that the fair value of the customer deposits portfolio is slightly higher than the book value, thus reflecting an interest rate environment dominated by decreasing rates throughout the local banking system, but in a context of relatively short renewal period for the deposits portfolios.

For the borrowings and the issued bonds, the Group performed a discounted cash flows analysis in order to estimate the fair value. In discounting was used the most recent quotations for similar instruments in terms of remaining tenor, fixing period and currency.

Held-to-maturity investments

In accordance with IAS 39 "Financial instruments: recognition and measurement", Group classifies part of the non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity.

In case the so classified instruments are not held to maturity, except for the specific cases mentioned by IAS 39 "Financial instruments: recognition and measurement", the Group is obliged to reclassify the whole class as available for sale.

6. FINANCIAL ASSETS AND LIABILITIES

The table below analyses financial instruments at fair value and at carrying amount by using the valuation methods described in note 5:

GROUP

IN RON THOUSAND 31 DECEMBER 2017	NOTE	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL	CARRYING AMOUNT
ASSETS						
Financial instruments measured at fair value						
Trading assets	17	54,594	31,704	–	86,298	86,298
out of which:						
Government debt securities		54,594	–	–	54,594	54,594
Foreign exchange contracts		–	18,373	–	18,373	18,373
Interest rate swaps		–	13,330	–	13,330	13,330
Derivative assets held for risk management	18	–	35,237	–	35,237	35,237
Investment securities available for sale		2,614,464	295,899	16,019	2,926,382	2,926,382
Investment securities designated at fair value through profit or loss		884,880	109,967	9,511	1,004,358	1,004,358
Financial instruments for which fair value is discloses						
Cash and cash with Central Bank		8,471,977	–	–	8,471,977	8,471,977
Loans and advances to banks	19	89,168	–	–	89,168	89,168
Loans and advances to customers		–	–	22,172,123	22,172,123	22,161,274
Investment securities held-to-maturity		1,308,646	–	–	1,308,646	1,297,233
Mutual funds		17,589	–	–	17,589	17,589
Investment securities available for sale		–	–	4,252	4,252	4,252
Investment in subsidiaries, associates and joint ventures		–	–	23,911	23,911	23,911
Other assets		–	–	243,079	243,079	243,079
LIABILITIES						
Financial instruments measured at fair value						
Trading liabilities	17	–	29,291	–	29,291	29,291
Derivative liabilities held for risk management	18	–	50,844	–	50,844	50,844
Financial instruments for which fair value is discloses						
Deposits from banks	27	508,289	–	–	508,289	508,289
Deposits from customers		–	–	29,698,024	29,698,024	29,695,999
Loans from banks and other financial institutions	29	–	–	931,333	931,333	931,958
Debt securities issued		–	527,378	–	527,378	512,501
Subordinated liabilities	29	–	–	849,017	849,017	849,017
Other liabilities		–	–	490,927	490,927	490,927

The table below analyses financial instruments at fair value and at carrying amount by using the valuation methods described in note 5:

GROUP

IN RON THOUSAND 31 DECEMBER 2016	NOTE	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL	CARRYING AMOUNT
ASSETS						
Financial instruments measured at fair value						
Trading assets	17	384,206	59,488	–	443,694	443,694
out of which:						
Government debt securities		384,206	–	–	384,206	384,206
Foreign exchange contracts		–	41,463	–	41,463	41,463
Interest rate swaps		–	18,025	–	18,025	18,025
Derivative assets held for risk management	18	–	1,013	–	1,013	1,013
Investment securities available for sale		1,851,912	72,043	16,002	1,939,957	1,939,957
Investment securities designated at fair value through profit or loss		1,197,222	127,556	9,501	1,334,279	1,334,279
Financial instruments for which fair value is disclosed						
Cash and cash with Central Bank		8,203,157	–	–	8,203,157	8,203,157
Loans and advances to banks	19	546,165	–	–	546,165	546,165
Loans and advances to customers		–	–	19,826,503	19,826,503	19,761,042
Investment securities held to maturity		573,634	–	–	573,634	555,639
Mutual funds		15,687	–	–	15,687	15,687
Investment securities available for sale		–	–	4,028	4,028	4,028
Investment in subsidiaries, associates and joint ventures		–	–	69,122	69,122	69,122
Other assets		–	–	163,353	163,353	163,353
LIABILITIES						
Financial instruments measured at fair value						
Trading liabilities	17	–	60,124	–	60,124	60,124
Derivative liabilities held for risk management	18	–	4,120	–	4,120	4,120
Financial instruments for which fair value is disclosed						
Deposits from banks	27	583,014	–	–	583,014	583,014
Deposits from customers		–	–	26,378,802	26,378,802	26,374,944
Loans from banks and other financial institutions	29	–	–	1,139,564	1,139,564	1,137,587
Debt securities issued		554,483	–	–	554,483	512,239
Subordinated liabilities	29	–	–	954,973	954,973	954,973
Other liabilities		–	–	440,587	440,587	440,587

The table below analyses financial instruments at fair value and at carrying amount by using the valuation methods described in note 5:

BANK

IN RON THOUSAND 31 DECEMBER 2017	NOTE	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL	CARRYING AMOUNT
ASSETS						
Financial instruments measured at fair value						
Trading assets	17	54,594	32,181	–	86,775	86,775
out of which:						
Government debt securities		54,594	–	–	54,594	54,594
Foreign exchange contracts		–	18,851	–	18,851	18,851
Interest rate swaps		–	13,330	–	13,330	13,330
Derivative assets held for risk management	18	–	35,237	–	35,237	35,237
Investment securities available for sale		2,614,465	295,899	16,019	2,926,383	2,926,383
Investment securities designated at fair value through profit or loss		884,880	109,967	9,511	1,004,358	1,004,358
Financial instruments for which fair value is disclosed						
Cash and cash with Central Bank		8,471,851	–	–	8,471,851	8,471,851
Loans and advances to banks	19	85,641	–	–	85,641	85,641
Loans and advances to customers		–	–	21,433,782	21,433,782	21,422,932
Investment securities held to maturity		1,286,769	–	–	1,286,769	1,275,730
Investment securities available for sale		–	–	4,023	4,023	4,023
Investment in subsidiaries, associates and joint ventures		–	–	105,379	105,379	105,379
Other assets		–	–	225,116	225,116	225,116
LIABILITIES						
Financial instruments measured at fair value						
Trading liabilities	17	–	29,603	–	29,603	29,603
Derivative liabilities held for risk management	18	–	50,245	–	50,245	50,245
Financial instruments for which fair value is disclosed						
Deposits from banks	27	508,289	–	–	508,289	508,289
Deposits from customers		–	–	29,738,773	29,738,773	29,736,748
Loans from banks and other financial institutions	29	–	–	239,975	239,975	240,600
Debt securities issued		–	531,223	–	531,223	516,223
Subordinated liabilities	29	–	–	849,017	849,017	849,017
Other liabilities		–	–	486,147	486,147	486,147

Notes to the Consolidated and Separate Financial Statements for the Year Ended 31 December 2017

The table below analyses financial instruments by using the valuation methods described in note 5:

BANK

IN RON THOUSAND	NOTE	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL	CARRYING AMOUNT
31 DECEMBER 2016						
ASSETS						
Financial instruments measured at fair value						
Trading assets	17	384,206	59,552	–	443,758	443,758
out of which:						
Government debt securities		384,206	–	–	384,206	384,206
Foreign exchange contracts		–	41,527	–	41,527	41,527
Interest rate swaps		–	18,025	–	18,025	18,025
Derivative assets held for risk management	18	–	1,013	–	1,013	1,013
Investment securities available for sale		1,851,912	72,043	16,002	1,939,957	1,939,957
Investment securities designated at fair value through profit or loss		1,197,222	127,556	9,501	1,334,279	1,334,279
Financial instruments for which fair value is disclosed						
Cash and cash with Central Bank		8,203,153	–	–	8,203,153	8,203,153
Loans and advances to banks	19	546,165	–	–	546,165	546,165
Loans and advances to customers		–	–	19,826,477	19,826,477	19,761,017
Investment securities held to maturity		551,179	–	–	551,179	534,227
Investment securities available for sale		–	–	4,023	4,023	4,023
Investment in subsidiaries, associates and joint ventures		–	–	62,655	62,655	62,655
Other assets		–	–	166,757	166,757	166,757
LIABILITIES						
Financial instruments measured at fair value						
Trading liabilities	17	–	60,124	–	60,124	60,124
Derivative liabilities held for risk management	18	–	4,101	–	4,101	4,101
Financial instruments for which fair value is disclosed						
Deposits from banks	27	583,014	–	–	583,014	583,014
Deposits from customers		–	–	26,385,698	26,385,698	26,381,841
Loans from banks and other financial institutions	29	–	–	1,139,564	1,139,564	1,137,587
Debt securities issued		558,511	–	–	558,511	515,961
Subordinated liabilities	29	–	–	954,973	954,973	954,973
Other liabilities		–	–	439,224	439,224	439,224

The below table presents financial instruments measured at carrying amount and at fair value:

GROUP

IN RON THOUSAND 31 DECEMBER 2017	NOTE	HELD FOR TRADING	DESIGNATED AT FAIR VALUE	HELD TO MATURITY	LOANS AND RECEIVABLES	AVAILABLE FOR SALE	TOTAL CARRYING AMOUNT	FAIR VALUE
FINANCIAL ASSETS								
Trading assets	17	86,298	–	–	–	–	86,298	86,298
Derivative assets held for risk management	18	35,237	–	–	–	–	35,237	35,237
Loans and advances to banks	19	–	–	–	89,168	–	89,168	89,168
Loans and advances to customers	20	–	–	–	22,161,274	–	22,161,274	22,172,123
Investment securities	21	–	1,021,947	1,297,233	–	2,930,634	5,249,814	5,261,227
Total financial assets		**121,535**	**1,021,947**	**1,297,233**	**22,250,442**	**2,930,634**	**27,621,791**	**27,644,053**
FINANCIAL LIABILITIES								
Trading liabilities	17	29,291	–	–	–	–	29,291	29,291
Derivative liabilities held for risk management	18	50,844	–	–	–	–	50,844	50,844
Deposits from banks	27	–	–	–	508,289	–	508,289	508,289
Deposits from customers	28	–	–	–	29,695,999	–	29,695,999	29,698,024
Loans from banks and other financial institutions	29	–	–	–	931,958	–	931,958	931,333
Debt securities issued	29	–	–	–	512,501	–	512,501	527,378
Subordinated liabilities	32	–	–	–	849,017	–	849,017	849,017
Total financial liabilities		**80,135**	**–**	**–**	**32,497,764**	**–**	**32,577,899**	**32,594,176**

The below table presents financial instruments measured at carrying amount and at fair value.

GROUP

IN RON THOUSAND 31 DECEMBER 2016	NOTE	HELD FOR TRADING	DESIGNA-TED AT FAIR VALUE	HELD TO MATURITY	LOANS AND RECEI-VABLES	AVAILABLE FOR SALE	TOTAL CARRYING AMOUNT	FAIR VALUE
FINANCIAL ASSETS								
Trading assets	17	443,694	–	–	–	–	443,694	443,694
Derivative assets held for risk management	18	1,013	–	–	–	–	1,013	1,013
Loans and advances to banks	19	–	–	–	546,165	–	546,165	546,165
Loans and advances to customers	20	–	–	–	19,761,042	–	19,761,042	19,826,503
Investment securities	21	–	1,349,966	555,639	–	1,943,985	3,849,590	3,867,585
Total financial assets		**444,707**	**1,349,966**	**555,639**	**20,307,207**	**1,943,985**	**24,601,504**	**24,684,960**
FINANCIAL LIABILITIES								
Trading liabilities	17	60,124	–	–	–	–	60,124	60,124
Derivative liabilities held for risk management	18	4,120	–	–	–	–	4,120	4,120
Deposits from banks	27	–	–	–	583,014	–	583,014	583,014
Deposits from customers	28	–	–	–	26,374,944	–	26,374,944	26,378,802
Loans from banks and other financial institutions	29	–	–	–	1,137,587	–	1,137,587	1,139,564
Debt securities issued	29	–	–	–	512,239	–	512,239	554,483
Subordinated liabilities	32	–	–	–	954,973	–	954,973	954,973
Total financial liabilities		**64,244**	**–**	**–**	**29,562,757**	**–**	**29,627,001**	**29,675,080**

The below table presents financial instruments measured at carrying amount and at fair value.

BANK

IN RON THOUSAND	NOTE	HELD FOR TRADING	DESIGNATED AT FAIR VALUE	HELD TO MATURITY	LOANS AND RECEIVABLES	AVAILABLE FOR SALE	TOTAL CARRYING AMOUNT	FAIR VALUE
31 DECEMBER 2017								
FINANCIAL ASSETS								
Trading assets	17	86,775	–	–	–	–	86,775	86,775
Derivative assets held for risk management	18	35,237	–	–	–	–	35,237	35,237
Loans and advances to banks	19	–	–	–	85,641	–	85,641	85,641
Loans and advances to customers	20	–	–	–	21,422,932	–	21,422,932	21,433,782
Investment securities	21	–	1,004,358	1,275,730	–	2,930,406	5,210,494	5,221,533
Total financial assets		**122,012**	**1,004,358**	**1,275,730**	**21,508,573**	**2,930,406**	**26,841,079**	**26,862,968**
FINANCIAL LIABILITIES								
Trading liabilities	17	29,603	–	–	–	–	29,603	29,603
Derivative liabilities held for risk management	18	50,245	–	–	–	–	50,245	50,245
Deposits from banks	27	–	–	–	508,289	–	508,289	508,289
Deposits from customers	28	–	–	–	29,736,748	–	29,736,748	29,738,773
Loans from banks and other financial institutions	29	–	–	–	240,600	–	240,600	239,975
Debt securities issued	29	–	–	–	516,223	–	516,223	531,223
Subordinated liabilities	32	–	–	–	849,017	–	849,017	849,017
Total financial liabilities		**79,848**	**–**	**–**	**31,850,877**	**–**	**31,930,725**	**31,947,125**

The below table presents financial instruments measured at carrying amount and at fair value.

BANK

RON THOUSAND 31 DECEMBER 2016	NOTE	HELD FOR TRADING	DESIG-NATED AT FAIR VALUE	HELD TO MATURITY	LOANS AND RE-CEIVABLES	AVAILABLE FOR SALE	TOTAL CARRYING AMOUNT	FAIR VALUE
FINANCIAL ASSETS								
Trading assets	17	443,758	–	–	–	–	443,758	443,758
Derivative assets held for risk management	18	1,013	–	–	–	–	1,013	1,013
Loans and advances to banks	19	–	–	–	546,165	–	546,165	546,165
Loans and advances to customers	20	–	–	–	19,761,017	–	19,761,017	19,826,477
Investment securities	21	–	1,334,279	534,227	–	1,943,980	3,812,486	3,829,438
Total financial assets		**444,771**	**1,334,279**	**534,227**	**20,307,182**	**1,943,980**	**24,564,439**	**24,646,851**
FINANCIAL LIABILITIES								
Trading liabilities	17	60,124	–	–	–	–	60,124	60,124
Derivative liabilities held for risk management	18	4,101	–	–	–	–	4,101	4,101
Deposits from banks	27	–	–	–	583,014	–	583,014	583,014
Deposits from customers	28	–	–	–	26,381,841	–	26,381,841	26,385,698
Loans from banks and other financial institutions	29	–	–	–	1,137,587	–	1,137,587	1,139,564
Debt securities issued	29	–	–	–	515,961	–	515,961	558,511
Subordinated liabilities	32	–	–	–	954,973	–	954,973	954,973
Total financial liabilities		**64,225**	**–**	**–**	**29,573,376**	**–**	**29,637,601**	**29,685,985**

Notes to the Consolidated and Separate Financial Statements for the Year Ended 31 December 2017

7. NET INTEREST INCOME

IN RON THOUSAND	GROUP 2017	GROUP 2016	BANK 2017	BANK 2016
INTEREST INCOME				
Current accounts and loans and advances to banks	9,171	11,716	11,106	11,716
Loans and advances to customers (i)	1,217,773	1,212,388	1,217,773	1,212,388
Derivatives held for risk management	61	124	61	124
Available for sale investments	22,896	18,313	22,896	18,313
Held to maturity investments	16,966	11,608	16,966	11,608
Other investment securities	9,516	15,800	8,738	15,035
Negative interest	(12,975)	(5,700)	(12,975)	(5,700)
Other	68	11	68	11
Finance leasing activity	33,271	-	-	-
TOTAL INTEREST INCOME	**1,296,747**	**1,264,260**	**1,264,633**	**1,263,495**
Interest expense and similar charges				
Deposits from banks	(1,007)	(906)	(1,007)	(906)
Deposits from customers	(40,294)	(58,132)	(34,102)	(58,132)
Debt securities issued	(26,719)	(33,454)	(26,912)	(33,732)
Loans from banks and subordinated liabilities	(45,426)	(54,629)	(45,426)	(54,629)
Other	(5,253)	(5,035)	(5,253)	(5,034)
Total interest expense	**(118,699)**	**(152,156)**	**(112,700)**	**(152,433)**
Net interest income	**1,178,048**	**1,112,104**	**1,151,933**	**1,111,062**

(i) The amount of interest income from impaired loans amounts to RON 47,855 thousand (31 December 2016: RON 71,759 thousand).

8. NET FEE AND COMMISSION INCOME

	GROUP		BANK	
IN RON THOUSAND	2017	2016	2017	2016
FEE AND COMMISSION INCOME				
Transactions from payments transfer business	557,359	573,394	557,576	573,394
Loans administration and guarantee issuance	57,938	53,052	57,938	53,052
Asset management fee	50,171	48,745	–	–
Commissions from insurance premium collections	49,325	57,719	49,325	57,719
Finance Leasing activity	3,603	–	–	–
Commissions for buying/selling cash	2,503	4,090	2,503	4,090
Other	39,090	35,471	74,204	70,441
Total fee and commission income	**759,989**	**772,471**	**741,546**	**758,696**
FEES AND COMMISSIONS EXPENSE				
Commissions for payment transfers	(148,540)	(129,094)	(148,478)	(129,094)
Loan and guarantees received from banks	(13,195)	(10,222)	(13,107)	(10,222)
For securities business	(181)	(1,040)	(1,106)	(670)
Other	(11,756)	(10,733)	(10,565)	(10,733)
Total fee and commission expense	**(173,672)**	**(151,089)**	**(173,256)**	**(150,719)**
Net fee and commission income	**586,317**	**621,382**	**568,290**	**607,977**

9. NET TRADING INCOME

	GROUP		BANK	
IN RON THOUSAND	**2017**	**2016**	**2017**	**2016**
NET TRADING INCOME FROM:				
Currency based instruments (i), out of which:	325,710	283,086	325,223	282,978
Gain/(loss) from foreign exchange derivative transactions	(7,792)	(1,915)	(7,792)	(1,915)
Net gain on revaluation of monetary assets and foreign currency transactions	333,502	285,001	333,015	284,893
Interest rate instruments (ii), out of which:	(14,442)	17,655	(14,442)	17,655
Net trading result from government securities and corporate debt securities	(16,641)	13,448	(16,641)	13,448
Interest rate swaps gain/(loss)	2,199	4,207	2,199	4,207
Net trading income	**311,268**	**300,741**	**310,781**	**300,633**

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

10. OTHER OPERATING INCOME

	GROUP		BANK	
IN RON THOUSAND	**2017**	**2016**	**2017**	**2016**
Net proceeds from sales of available for sale instruments*	153	99,824	153	99,824
Gain/loss on impairment for investments in subsidiaries, associates and joint ventures (Note 22)	1,692	(16,771)	–	(14,106)
Reversal of litigation provision	–	7,573	–	7,573
Revenues from additional leasing services	2,203	425	410	425
Reversal of other provisions	16,826	19,743	16,826	19,743
Dividend income	1,778	1,501	6,711	15,992
Other computer services	2,478	2,491	2,478	2,491
Revenues from insurance recovery	–	3,770	–	3,770
Income from repossessed assets	4,792	2,288	4,792	2,288
Sundry income	15,024	9,564	17,193	10,303
Total	**44,946**	**130,408**	**48,563**	**148,303**

* Net proceeds from sale of available for sale instruments in 2016 include proceeds from sale of Visa Europe share (Note 21).

11. OPERATING EXPENSES

	GROUP		BANK	
IN RON THOUSAND	**2017**	**2016**	**2017**	**2016**
Rental of office space expenses	**150,264**	157,599	**150,494**	157,249
IT repairs and maintenance	**78,328**	76,411	**77,063**	75,867
Depreciation and amortization (Note 23, Note 24)	**100,603**	80,362	**99,552**	80,238
Deposit insurance fees*	**5,147**	32,194	**5,147**	32,194
Resolution fund fee**	**38,433**	10,704	**38,433**	10,704
Security expenses	**84,959**	54,557	**84,959**	54,557
Advertising	**78,531**	57,035	**77,530**	56,830
Charge of litigation provision	**6,697**	–	**6,697**	–
Legal, advisory and consulting expenses	**42,811**	46,128	**42,299**	45,973
Postal and telecommunication expenses	**32,550**	30,498	**32,186**	30,468
Office supplies	**34,241**	29,173	**34,119**	29,159
Sundry operating expenses	**40,753**	20,262	**39,260**	20,552
Charge of other provisions	**3,449**	12,766	**3,449**	12,766
Training expenses for staff	**8,980**	11,694	**8,700**	11,657
Travelling expenses	**10,707**	7,570	**10,454**	7,495
Transport costs	**5,464**	5,054	**5,101**	5,043
Other taxes	**5,827**	6,716	**3,851**	5,234
Total	**727,744**	**638,723**	**719,294**	**635,986**

* The Bank pays annually contributions to the Bank Deposit Guarantee Fund for guaranteed deposits. Guaranteed deposits represent any credit balance, including the due interest, which results from funds left in an account or from temporary situations deriving from normal banking transactions and which a credit institution must repay in the legal and contractual conditions applicable. Examples of guaranteed deposits are: time deposits, current accounts, savings accounts, debit/credit card accounts.
**Bank pays contribution to resolution fund for liabilities not covered, respectively for liabilities (excluding own funds) less covered deposits. The liability to pay these levies is recognized when they become constructive. In this case, the obligation arises annually on January 1, as the Bank performs activities related to deposits received.

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

Bank: In the reporting period 2017 the expense with statutory audit of financial statements was in amount of RON 794 thousands, the expense with assurance services was in amount of RON 221 thousands and the expense with non-assurance services was in amount of RON 391 thousands.

Group: In the reporting period 2017 the expense with statutory audit of financial statements was in amount of RON 872 thousands, the expense with assurance services was in amount of RON 264 thousands and the expense with non-assurance services was in amount of RON 491 thousands.

12. PERSONNEL EXPENSE

	GROUP		BANK	
IN RON THOUSAND	**2017**	**2016**	**2017**	**2016**
Salary expense (i)	442,945	431,636	428,913	427,433
Social contributions (ii)	100,758	93,319	97,760	92,444
Other staff expenses	9,652	6,206	9,260	6,183
Long term employee benefits (iii)	2,451	1,652	2,431	1,652
Total	**555,806**	**532,813**	**538,364**	**527,712**

The number of employees at Group level as at 31 December 2017 was 5,314 (31 December 2016: 5,265). The number of employees at Bank level as at 31 December 2017 was 5,190 (31 December 2016: 5,235).

(i) Out of the total salary expense, the Group has recorded in 2017 RON 3,885 thousand, representing contribution for employees to Pillar 3 pension plan (2016: RON 3,978 thousand).
(ii) Out of Social contributions expense, the contribution for National House of Pensions and Social Insurance is RON 67,064 thousand (2016: RON 63,700 thousand).
(iii) The long-term benefits for employees also include the provision for benefits granted on retirement as a one-off compensation and deferred performance bonus. Out of the total long-term employee benefits, the Group has recorded in 2017 RON 563 thousand, representing the expense for share incentive plan (2016: RON 287 thousand).

Share-based remuneration

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

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

Expenses related to the share incentive program are recognized in staff expenses in accordance with IFRS 2 for cash settled share-based payment transactions and the liability incurred at the fair value of the liability. The share incentive plan was in place until 31 December 2013 and from 2014 the Group has cancelled this form of remuneration. The number of contingently allotted shares was: SIP 2011: 9,581, SIP 2012: 12,143, SIP 2013: 18,075.

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

13. NET CHARGE OF PROVISION FOR IMPAIRMENT LOSSES

GROUP

IN RON THOUSAND	2017	2016
Impairment charge on loans and advances to customers (Note 20)	688,505	895,960
Release of the impairment for loans and advances to customers (Note 20)	(369,361)	(376,371)
Impairment charge on un-drawn commitments (Note 30)	11,723	7,880
Release of the impairment for un-drawn commitments (Note 30)	(10,438)	(13,598)
Loans written-off	150,410	97,228
Recoveries from loans and advances to customers	(225,216)	(141,830)
Net charge of provision for impairment losses	**245,623**	**469,269**

BANK

IN RON THOUSAND	2017	2016
Impairment charge on loans and advances to customers (Note 20)	679,608	895,960
Release of the impairment for loans and advances to customers (Note 20)	(362,485)	(376,371)
Impairment charge on un-drawn commitments (Note 30)	11,723	7,880
Release of the impairment for un-drawn commitments (Note 30)	(10,438)	(13,598)
Loans written-off	151,085	97,228
Recoveries from loans and advances to customers	(225,216)	(141,830)
Net charge of provision for impairment losses	**244,277**	**469,269**

* Law no. 77/2016 regarding the commissioning of immovable property payment on redemption loan's obligations, which generated a release impact in amount of RON 97,621 thousand.

14. INCOME TAX EXPENSE

GROUP

IN RON THOUSAND	2017	2016
Current tax expenses at 16% (2016:16%) of taxable profits determined in accordance with Romanian law	97,401	78,698
Deferred tax income/expense (Note 25)	(2,263)	13,200
Total	**95,138**	**91,898**

BANK

IN RON THOUSAND	2017	2016
Current tax expenses at 16% (2016:16%) of taxable profits determined in accordance with Romanian law	94,350	77,740
Deferred tax income/expense (Note 25)	(1,767)	13,210
Total	**92,583**	**90,950**

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

	GROUP		BANK	
IN RON THOUSAND	**2017**	**2016**	**2017**	**2016**
Gross profit before tax	604,038	535,714	583,763	542,579
Taxation at statutory rate of 16% (2016: 16%)	**96,646**	**85,714**	**93,402**	**86,812**
Non-deductible expenses	51,155	36,807	51,106	36,886
Non-taxable revenues	(37,628)	(34,214)	(37,511)	(36,350)
Corporate income tax before fiscal credit	**110,173**	**88,307**	**106,997**	**87,348**
Fiscal credit	(9,982)	(10,007)	(9,857)	(10,006)
Adjustments recognized in the period for current tax of prior periods	(2,790)	398	(2,790)	398
Corporate income tax	**97,401**	**78,698**	**94,350**	**77,740**
Effect of origination and reversal of temporary differences	(2,263)	13,200	(1,767)	13,210
Taxation in the consolidated statement of comprehensive income	**95,138**	**91,898**	**92,583**	**90,950**

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

Fiscal credit represents sponsorship expense according to the applicable fiscal regulations.

16. CASH AND CASH WITH CENTRAL BANK THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	GROUP		BANK	
IN RON THOUSAND	**31 DECEMBER 2017**	**31 DECEMBER 2016**	**31 DECEMBER 2017**	**31 DECEMBER 2016**
Cash on hand	4,516,070	3,502,500	4,515,944	3,502,496
Minimum compulsory reserve	3,955,907	3,000,633	3,955,907	3,000,633
Sight deposits held with central bank	–	1,700,024	–	1,700,024
Total	**8,471,977**	**8,203,157**	**8,471,851**	**8,203,153**

The Bank maintains with the National Bank of Romania the minimum compulsory reserve established under Regulation no. 6/2002 issued by the National Bank of Romania, with subsequent amendments and addendums. As of 31 December 2017 the mandatory minimum reserve ratio was 8% (31 December 2016: 8%) for funds raised in RON and foreign currency with residual maturity of less than 2 years, at the end of the observation period. For liabilities having residual maturity over 2 years at the end of the observation period, without reimbursement, conversion or early retirement clauses, compulsory minimum reserve ratio was set at 0% (31 December 2016: 0%).

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

17. TRADING ASSETS / LIABILITIES

IN RON THOUSANDS	GROUP 31 DECEMBER 2017	GROUP 31 DECEMBER 2016	BANK 31 DECEMBER 2017	BANK 31 DECEMBER 2016
TRADING ASSETS				
Bonds (i)	**54,594**	384,206	**54,594**	384,206
Derivative financial instruments	**31,704**	59,488	**32,181**	59,552
Total	**86,298**	**443,694**	**86,775**	**443,758**
Trading liabilities	**29,291**	60,124	**29,603**	60,124
Derivative financial instruments	**29,291**	**60,124**	**29,603**	**60,124**

(i) The bonds held as at 31 December 2017 and as at December 2016 include discount treasury bills and bonds.

18. DERIVATIVES HELD FOR RISK MANAGEMENT

GROUP

31 DECEMBER 2017 RON THOUSANDS	NOTIONAL BUY	NOTIONAL SELL	FAIR VALUE ASSETS	FAIR VALUE LIABILITIES
OTC PRODUCTS:				
Cross currency Interest rate swaps	167,749	160,067	9,144	108
FX swap	14,822,764	14,830,813	25,845	49,042
Interest rate swaps	122,173	122,173	248	1,694
Total			**35,237**	**50,844**

31 DECEMBER 2016 IN RON THOUSAND	NOTIONAL BUY	NOTIONAL SELL	FAIR VALUE ASSETS	FAIR VALUE LIABILITIES
OTC PRODUCTS:				
Cross currency Interest rate swaps	136,233	132,698	998	2,282
Interest rate swaps	60,411	60,411	15	1,838
Total			**1,013**	**4,120**

Notes to the Consolidated and Separate Financial Statements for the Year Ended 31 December 2017

BANK

31 DECEMBER 2017 IN RON THOUSAND	NOTIONAL BUY	NOTIONAL SELL	ASSETS	FAIR VALUE LIABILITIES
OTC PRODUCTS:				
Cross currency Interest rate swaps	167,749	160,067	9,144	–
FX swap	14,822,764	14,830,813	25,845	49,042
Interest rate swaps	122,173	122,173	248	1,203
Total			**35,237**	**50,245**

31 DECEMBER 2016 IN RON THOUSAND	NOTIONAL BUY	NOTIONAL SELL	ASSETS	FAIR VALUE LIABILITIES
OTC PRODUCTS:				
Cross currency Interest rate swaps	136,233	132,698	998	2,263
Interest rate swaps	60,411	60,411	15	1,838
Total			**1,013**	**4,101**

FX swap contracts are used by the bank mainly for liquidity management. These operations are used by the bank to invest for a period of time the liquidity available in a currency by exchange it for another currency. Out of the gross notional sold of RON 14.831 mn, the EUR/RON currency pair contributes with a gross value of RON 14.314 mn, representing net placements in local currency in amount of RON 1.026 mn.

The Group does not use hedge accounting for its currency and interest rate derivative contracts.

The fair value of derivative financial instruments is determined using the market quotations at the valuation date using discounted cash flow models. Foreign exchange transactions are measured on the basis of discounting future cash flows with market rates; the sites of Reuters and the fixing price of National Bank of Romania are the source of rates.

19. LOANS AND ADVANCES TO BANKS

Group: As at 31 December 2017, out of the total loans and advances to banks of RON 89,168 thousand (2016: RON 546,165 thousand), term deposits held with commercial banks amount to RON 1,153 thousand (2016: RON 412,720 thousand). Loans and advances to banks include also collateral deposits of RON 41,074 thousand (2016: RON 16,056 thousand), the rest of the amount represent current accounts and sight deposits.

Bank: As at 31 December 2017, out of the total loans and advances to banks of RON 85,641 thousand (2016: RON 546,165 thousand), term deposits held with commercial banks amount to RON 1,153 thousand (2016: RON 412,720 thousand). Loans and advances to banks include also collateral deposits of RON 41,074 thousand (2016: RON 16,056 thousand), the rest of the amount represent current accounts and sight deposits.

20. LOANS AND ADVANCES TO CUSTOMERS

The Group's commercial lending is concentrated on companies and individuals. Economic sector risk concentrations within the customer loan portfolio at balance sheet date were as follows:

	GROUP		BANK	
	31 DECEMBER 2017	31 DECEMBER 2016	31 DECEMBER 2017	31 DECEMBER 2016
IN RON THOUSAND				
Retail customers	14,038,931	12,681,288	13,704,864	12,681,288
Non-retail customers, of which:				
Agriculture and food industry	479,137	418,035	460,680	418,035
Electricity, oil & gas	348,984	270,465	348,808	270,465
Manufacturing	1,657,611	1,487,352	1,562,832	1,487,352
Construction	1,678,306	1,301,440	1,623,128	1,301,440
Wholesale and retail trade	2,339,867	2,161,874	2,230,380	2,161,874
Services	2,264,919	2,056,716	2,110,243	2,056,691
Public sector	424,856	618,933	423,978	618,933
Total loans and advances to customers before allowances	**23,232,611**	**20,996,103**	**22,464,913**	**20,996,078**
Less allowance for impairment losses on loans and advances to customers	(1,071,337)	(1,235,061)	(1,041,981)	(1,235,061)
Net loans and advances to customers	**22,161,274**	**19,761,042**	**21,422,932**	**19,761,017**

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

IN RON THOUSAND	GROUP 31 DECEMBER 2017	GROUP 31 DECEMBER 2016	BANK 31 DECEMBER 2017	BANK 31 DECEMBER 2016
RETAIL CUSTOMERS				
Specific allowances for impairment				
Balance as at the beginning of the year	556,320	527,055	556,320	527,055
Impairment loss for the year				
Charge for the year	464,377	535,037	459,346	535,037
Release	(126,172)	(251,798)	(122,581)	(251,798)
Decreases due to amounts taken against allowances	(274,783)	(255,194)	(280,146)	(255,194)
Effect of foreign currencies movements	(3,507)	1,220	(3,465)	1,220
Balance at the end of the year	**616,235**	**556,320**	**609,474**	**556,320**
Collective allowances for impairment				
Balance as at the beginning of the year	247,324	118,632	247,324	118,632
Impairment loss for the year				
Charge for the year	103,125	165,537	103,448	165,537
Release	(179,166)	(37,144)	(179,705)	(37,144)
Effect of foreign currencies movements	(1,337)	299	(1,337)	299
Other adjustments	485	–	–	–
Balance at the end of the year	**170,431**	**247,324**	**169,730**	**247,324**
Total retail customer	**786,666**	**803,644**	**779,204**	**803,644**
CORPORATE CUSTOMERS				
Specific allowances for impairment				
Balance as at the beginning of the year	390,888	350,444	390,888	350,444
Impairment loss for the year				
Charge for the year	96,689	171,274	93,597	171,274
Release	(34,365)	(62,607)	(31,620)	(62,607)
Decreases due to amounts taken against allowances	(210,690)	(71,334)	(228,468)	(71,334)
Effect of foreign currencies movements	3,527	3,111	3,262	3,111
Balance at the end of the year	**246,049**	**390,888**	**227,659**	**390,888**
Collective allowances for impairment				
Balance as at the beginning of the year	40,529	38,755	40,529	38,755
Impairment loss for the year				
Charge for the year	24,314	24,112	23,217	24,112
Release	(29,658)	(24,822)	(28,579)	(24,822)
Effect of foreign currencies movements	(41)	2,484	(49)	2,484
Other adjustments	3,478	–	–	–
Balance at the end of the year	**38,622**	**40,529**	**35,118**	**40,529**
Total corporate customers	**284,671**	**431,417**	**262,777**	**431,417**
Total allowances for impairment	**1,071,337**	**1,235,061**	**1,041,981**	**1,235,061**

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

	GROUP		BANK	
IN RON THOUSANDS	31 DECEMBER 2017	31 DECEMBER 2016	31 DECEMBER 2017	31 DECEMBER 2016
Exposure	**1,714,857**	**1,918,049**	**1,678,681**	**1,918,049**
out of which retail:	1,225,751	1,174,675	1,225,721	1,174,675
out of which non-retail:	489,106	743,374	452,960	743,374
Allowance for impairment	**861,106**	**992,894**	**836,462**	**992,894**
out of which retail:	607,640	596,506	607,639	596,506
out of which non-retail:	253,466	396,388	228,823	396,388
Net Book Value	**853,751**	**925,155**	**842,219**	**925,155**
out of which retail:	618,111	578,169	618,082	578,169
out of which non-retail:	235,640	346,986	224,137	346,986

Financial lease

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

IN RON THOUSANDS	31 DECEMBER 2017
Gross lease investment	959,870
Deferred financial revenue:	(57,666)
Net lease investment	**902,204**
Gross lease investment, according to the remaining maturity	
Less than one year	89,606
1 to 5 years	805,846
Over 5 years	64,418
	959,870
Net lease investment, according to the remaining maturity:	
Less than one year	87,992
1 to 5 years	756,648
Over 5 years	57,564
	902,204

21. INVESTMENT SECURITIES

IN RON THOUSANDS	GROUP 31 DECEMBER 2017	GROUP 31 DECEMBER 2016	BANK 31 DECEMBER 2017	BANK 31 DECEMBER 2016
INVESTMENT SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS				
Treasury securities issued by the Government of Romania (i)	610,812	246,068	610,812	246,068
Bonds issued by the Government of Romania (ii)	235,032	951,154	235,032	951,154
Bonds issued by other public sector	149,003	127,556	149,003	127,556
Bonds issued by Multilateral Development Banks	9,511	9,501	9,511	9,501
Mutual funds	17,589	15,687	–	–
Total investment securities at fair value through profit or loss	**1,021,947**	**1,349,966**	**1,004,358**	**1,334,279**
INVESTMENT SECURITIES AVAILABLE-FOR-SALE				
Bonds issued by other public sector	289,003	47,884	289,003	47,884
Treasury securities issued by the Government of Romania (i)	629,583	708,622	629,583	708,622
Bonds issued by the Government of Romania (ii)	1,893,110	1,088,917	1,893,111	1,088,917
Unquoted equity instruments (iii)	4,252	4,028	4,023	4,023
Quoted equity instruments	29,522	23,333	29,522	23,333
Bonds issued by Multilateral Development Banks	85,164	71,201	85,164	71,201
Total investment securities available-for-sale	**2,930,634**	**1,943,985**	**2,930,406**	**1,943,980**
INVESTMENT SECURITIES HELD-TO-MATURITY (ii)				
Bonds issued by private sector issuers	5,155	5,155	–	–
Bonds issued by the Government of Romania (ii)	1,292,078	550,484	1,275,730	534,227
Total investment securities held-to-maturity	**1,297,233**	**555,639**	**1,275,730**	**534,227**
Total investment securities	**5,249,814**	**3,849,590**	**5,210,494**	**3,812,486**

(i) Treasury bills issued by the Government of Romania include discount securities denominated in RON. Discount treasury bills bear fixed interest rates.
ii) Bonds issued by the Government of Romania include bonds issued by the Ministry of Finance denominated in RON, EUR and USD, bearing fixed interest rate between 1.25% p.a. and 6.75% p.a. As at 31 December 2017, bonds issued by the Government of Romania amounting to RON 59,880 thousand (31 December 2016: RON 60,732 thousand) are pledged as security in order to comply with National Bank of Romania prudential regulations for settlement of inter-banking operations.
iii) Unquoted equity instruments represent equity investments that do not have a quoted price in an active market for an identical instrument and whose fair value cannot be reliably measured. Any fair value measurement would require significant management judgement due to the difficulties in obtaining information that might be relied on to use in valuation. Therefore, these equity investments are measured at cost less impairment, if any.

As of December 31, 2017 the carrying amount of unquoted equity instruments held by the Group amounted to RON 4,252 thousand (31 December 2016: RON 4,028 thousand). No impairment losses have been recognized in respect of these instruments (31 December 2016: RON nil).

As of December 31, 2015 the Bank as principal member of Visa Europe Limited held a share in the share capital of this company. Until 2015, the Bank held this participation at cost, as it did not have a quoted market price in an active market and its fair value could not be reliably measured.

In November 2015, Visa Inc. and Visa Europe Limited have signed a contract according to which Visa Inc. acquires 100% of the share capital of Visa Europe.

In June 2016 the transaction of Visa Europe acquisition was finished. For the share held in Visa Europe, the Bank relised revenue in the form of cash, Visa Inc. shares and a deferred cash payment component.

Group: Net income from financial investments for the period ended December 31st, 2017 are in amount of RON 5,921 thousand (31 December 2016: RON 7,784 thousand).

Bank: Net income from financial investments for the period ended December 31st, 2017 are in amount of RON 6,128 thousand (31 December 2016: RON 7,571 thousand).

The increase in net income from financial investments is due to Visa transaction, explained above.

22. IINVESTMENT IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

i) Associates and joint ventures

	GROUP		BANK	
IN RON THOUSAND	2017	2016	2017	2016
Balance at 1January	85,893	102,192	123,799	123,799
Additions	–	–	42,725	–
Disposals	–	(25,824)	–	–
Reclass	(47,969)	–	–	–
Other comprehensive income	(419)	(37)	–	–
Group’s share of gain from associates	1,485	9,562	–	–
Total	38,990	85,893	166,524	123,799
Allowance for impairment	(15,079)	(16,771)	(61,145)	(61,144)
Balance at 31 december	23,911	69,122	105,379	62,655

Starting with 2016, the Group reclassified its investments in unit funds from associates to investment securities. The reason for the reclassification is that the interest held into the unit funds decreased constantly in the past years and the remaining part became insignificant. Also, due to the low interest held, the participation in its unit funds do not qualify as associates anymore.

ii) Business combination

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

For this business combination was contracted an external evaluator and the issued evaluation report was the base for the arm length transaction price.

This acquisition transaction is part of Raiffeisen Bank International Group's strategy to streamline its organizational structure.

FAIR VALUE RECOGNISED ON ACQUISITION

IN RON THOUSAND	RAIFFEISEN LEASING IFN S.A.	ICS RAIFFEISEN LEASING S.R.L	RAIFFEISEN LEASING GROUP
Cash and cash balances at central banks	5	–	5
Loans and advances to banks	18,594	3,448	22,042
Loans and advances to customers	828,301	17,896	846,197
Investment securities	1	222	223
Tax receivable	1,997	288	2,285
Other assets	22,629	862	23,491
Property and equipment	876	26	902
Intangible assets	1,900	46	1,946
Total assets	**874,303**	**22,788**	**897,091**
Derivative liabilities held for risk management	40	–	40
Loans from banks	768,607	15,329	783,936
Deposits from customers	9,172	1,422	10,594
Current tax liabilities	530	–	530
Other liabilities	4,503	–	4,503
Provisions	1,456	95	1,551
Total liabilities	**784,308**	**16,846**	**801,154**
Fair value of total net assets			**95,937**
Fair value of total net assets acquired			**47,969**
Consideration paid			**42,724**
Negative goodwill			**(5,245)**

The business combination of Raiffeisen Leasing IFN S.A. and ICS Raiffeisen Leasing S.R.L. generated in 2017 reporting period a profit in amount of RON 12,878 thousands and total revenues in amount of RON 36,826 thousands. If Raiffeisen Leasing IFN S.A. and ICS Raiffeisen Leasing S.R.L. had been integrated as of the beginning of the annual reporting period they would have generated a profit in amount of RON 14,352 thousands and revenue in amount of RON 49,083 thousands.

Gross investment less unearned income in new business added during the period for Raiffeisen Leasing Group was in amount of RON 344,381 thousands.

The gross contractual amount of the acquired lease receivables amounts to RON 889,344 thousands.
The contractual cash flows not expected to be collected, at the acquisition date, is RON 43,148 thousands.

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

INVESTMENT IN ASSOCIATES

IN RON THOUSAND	ASSETS	LIABILITIES	REVENUES	INTEREST INCOME	INTEREST EXPENSE	INCOME TAXES	PROFIT	NATIVE ASSETS	INTEREST HELD %	% NET ASSETS
31 DECEMBER 2017										
Fondul de Garantare a Creditului Rural IFN SA	734,525	683,711	22,060	761	(318)	(205)	4,092	50,814	33.33%	16,936

INVESTMENT IN ASSOCIATES

IN RON THOUSAND	ASSETS	LIABILITIES	REVENUES	INTEREST INCOME	INTEREST EXPENSE	INCOME TAXES	PROFIT	NATIVE ASSETS	INTEREST HELD %	% NET ASSETS
31 DECEMBER 2016										
Fondul de Garantare a Creditului Rural IFN SA	724,282	677,560	25,746	511	(65)	(1,253)	3,834	46,722	33.33%	15,572

INVESTMENT IN JOINT VENTURES

IN RON THOUSAND	ASSETS	LIABILITIES	REVENUES	INTEREST INCOME	INTEREST EXPENSE	INCOME TAXES	PROFIT	NATIVE ASSETS	INTEREST HELD %	% NET ASSETS
31 DECEMBER 2017										
Raiffeisen Banca pentru Locuințe S.A.	625,246	559,048	28,247	23,014	(10,956)	(411	(5,140)	66,198	33.33%	22,060

INVESTMENT IN JOINT VENTURES

IN RON THOUSAND	ASSETS	LIABILITIES	REVENUES	INTEREST INCOME	INTEREST EXPENSE	INCOME TAXES	PROFIT	NATIVE ASSETS	INTEREST HELD %	% NET ASSETS
31 DECEMBER 2016										
Raiffeisen Leasing IFN S.A.	935,305	846,487	107,727	42,667	(10,760)	(3,256)	16,222	88,818	50.00%	44,409
ICS Raiffeisen Leasing S.R.L.	26,895	21,638	3,739	3,311	(844	794	(94)	5,258	50.00%	2,629
Raiffeisen Banca pentru Locuințe S.A.	744,827	672,308	33,774	25,720	(11,794)	(493)	2,062	72,519	33.33%	24,167

23. PROPERTY, PLANT AND EQUIPMENT

GROUP

IN RON THOUSAND	LAND AND BUILDINGS	FURNITURE AND COMPUTER EQUIPMENT	MOTOR VEHICLES	ASSETS IN PROGRESS	TOTAL
COST					
Balance at 1 January 2016	**204,706**	**436,669**	**43,674**	**5,874**	**690,923**
Additions	–	21,092	5,318	67,075	93,485
Transfers	5,984	26,640	3,378	(36,002)	–
Disposals	(8,304)	(13,644)	(18,974)	(7,174)	(48,096)
Balance at 31 December 2016	**202,386**	**470,757**	**33,396**	**29,773**	**736,312**
Balance at 1 January 2017	**202,386**	**470,757**	**33,396**	**29,773**	**736,312**
Additions	–	9,339	1,943	44,288	55,570
Transfers	6,133	42,464	5,398	(53,995)	–
Disposals	(5,154)	(39,610)	(5,926)	(1,180)	(51,870)
Change in consolidation	39	158	754	–	951
Balance at 31 December 2017	**203,404**	**483,108**	**35,565**	**18,886**	**740,963**
DEPRECIATION AND IMPAIRMENT LOSSES					
Balance at 1 January 2016	**152,284**	**306,124**	**19,557**	**–**	**477,965**
Charge for the year	9,628	34,067	5,252	–	48,947
Disposals	(6,558)	(11,482)	(8,652)	–	(26,692)
Balance at 31 December 2016	**155,354**	**328,709**	**16,157**	**–**	**500,220**
Balance at 1 January 2017	**155,354**	**328,709**	**16,157**	**–**	**500,220**
Charge for the year	8,773	46,372	5,296	–	60,441
Disposals	(4,916)	(31,123)	(4,741)	–	(40,780)
Balance at 31 December 2017	**159,211**	**343,958**	**16,712**	**–**	**519,881**
CARRYING AMOUNTS					
At 1 January 2016	**52,422**	**130,545**	**24,117**	**5,874**	**212,958**
At 31 December 2016	**47,032**	**142,048**	**17,239**	**29,773**	**236,092**
At 1 January 2017	**47,032**	**142,048**	**17,239**	**29,773**	**236,092**
At 31 December 2017	**44,193**	**139,150**	**18,853**	**18,886**	**221,082**

Notes to the Consolidated and Separate Financial Statements for the Year Ended 31 December 2017

BANK

IN RON THOUSAND	LAND AND BUILDINGS	FURNITURE AND COMPUTER EQUIPMENT	MOTOR VEHICLES	ASSETS IN PROGRESS	TOTAL
COST					
Balance at 1 January 2016	**205,313**	**442,770**	**31,875**	**9,645**	**689,603**
Additions	–	14,979	5,092	63,305	83,376
Transfers	5,984	26,640	3,378	(36,002	–
Disposals	(8,911)	(13,644)	(7,685)	(7,175)	(37,415)
Balance at 31 December 2016	**202,386**	**470,745**	**32,660**	**29,773**	**735,564**
Balance at 1 January 2017	**202,386**	**470,745**	**32,660**	**29,773**	**735,564**
Additions	–	8,328	1,205	44,288	53,821
Transfers	6,133	42,464	5,398	(53,995	–
Disposals	(5,137)	(38,368)	(5,359)	(1,180)	(50,044)
Balance at 31 December 2017	**203,382**	**483,169**	**33,904**	**18,886**	**739,341**
DEPRECIATION AND IMPAIRMENT LOSSES					
Balance at 1 January 2016	**152,164**	**306,648**	**18,096**	**–**	**476,908**
Charge for the year	9,628	34,065	5,176	–	48,869
Disposals	(6,438)	(12,008)	(7,446)	–	(25,892)
Balance at 31 December 2016	**155,354**	**328,705**	**15,826**	**–**	**499,885**
Balance at 1 January 2017	**155,354**	**328,705**	**15,826**	**–**	**499,885**
Charge for the year	8,756	46,550	4,794	–	60,100
Disposals	(4,984)	(29,258)	(5,887)	–	(40,129)
Balance at 31 December 2017	**159,126**	**345,997**	**14,733**	**–**	**519,856**
CARRYING AMOUNTS					
At 1 January 2016	**53,149**	**136,122**	**13,779**	**9,645**	**212,695**
At 31 December 2016	**47,032**	**142,040**	**16,834**	**29,773**	**235,679**
At 1 January 2017	**47,032**	**142,040**	**16,834**	**29,773**	**235,679**
At 31 December 2017	**44,256**	**137,172**	**19,171**	**18,886**	**219,485**

Group: Included in additions and disposals are transfers between the groups of fixed assets. Purchases of property, plant and equipment during year 2017 were in amount of RON 55,570 thousand (2016: RON 93,485 thousand).

Bank: Included in additions and disposals are transfers between the groups of fixed assets. Purchases of property, plant and equipment during year 2017 were in amount of RON 53,821 thousand (2016: RON 83,376 thousand).

24. INTANGIBLE ASSETS

GROUP

IN RON THOUSAND	PURCHASED SOFTWARE	ASSETS IN PROGRESS	TOTAL
COST			
Balance at 1 January 2016	**328,059**	**41,512**	**369,571**
Additions	7,337	56,311	63,648
Transfers	53,230	(53,230)	–
Disposals	(238)	(16)	(254)
Balance at 31 December 2016	**388,388**	**44,577**	**432,965**
Balance at 1 January 2017	**388,388**	**44,577**	**432,965**
Additions	518	81,270	81,788
Transfers	45,536	(45,536)	–
Change in consolidation	1,956	84	2,040
Disposals	(17,950)	(705)	(18,655)
Balance at 31 December 2017	**418,448**	**79,690**	**498,138**
AMORTIZATION AND IMPAIRMENT LOSSES			
Balance at 1 January 2016	**282,348**	**–**	**282,348**
Charge for the year	31,415	–	31,415
Disposals	(212)	–	(212)
Balance at 31 December 2016	**313,551**	**–**	**313,551**
Balance at 1 January 2017	**313,551**	**–**	**313,551**
Charge for the year	40,162	–	40,162
Disposals	(17,693)	–	(17,693)
Balance at 31 December 2017	**336,020**	**–**	**336,020**
CARRYING AMOUNTS			
At 1 January 2016	**45,711**	**41,512**	**87,223**
At 31 December 2016	**74,837**	**44,577**	**119,414**
At 1 January 2017	**74,837**	**44,577**	**119,414**
At 31 December 2017	**82,428**	**79,690**	**162,118**

BANK

IN RON THOUSAND	PURCHASED SOFTWARE	ASSETS IN PROGRESS	TOTAL
COST			
Balance at 1 January 2016	**327,647**	**41,106**	**368,753**
Additions	7,177	56,311	63,488
Transfers	53,230	(53,230)	–
Disposals	(238)	(16)	(254)
Balance at 31 December 2016	**387,816**	**44,171**	**431,987**
Balance at 1 January 2017	**387,816**	**44,171**	**431,987**
Additions	–	80,909	80,909
Transfers	45,536	(45,536)	–
Disposals	(14,835)	(439)	(15,274)
Balance at 31 December 2017	**418,517**	**79,105**	**497,622**
AMORTIZATION AND IMPAIRMENT LOSSES			
Balance at 1 January 2016	**281,594**	**–**	**281,594**
Charge for the year	31,369	–	31,369
Disposals	(212)	–	(212)
Balance at 31 December 2016	**312,751**	**–**	**312,751**
Balance at 1 January 2017	**312,751**	**–**	**312,751**
Charge for the year	39,452	–	39,452
Disposals	(14,578)	–	(14,578)
Balance at 31 December 2017	**337,625**	**–**	**337,625**
CARRYING AMOUNTS			
At 1 January 2016	**46,053**	**41,106**	**87,159**
At 31 December 2016	**75,065**	**44,171**	**119,236**
At 1 January 2017	**75,065**	**44,171**	**119,236**
At 31 December 2017	**80,892**	**79,105**	**159,997**

Group: Included in additions and disposals are transfers between the groups of intangible assets. Purchases of intangible assets during year 2017 were in amount of RON 81,788 thousand (2016: RON 63,648 thousand).

Bank: Included in additions and disposals are transfers between the groups of intangible assets. Purchases of intangible assets during year 2017 were in amount of RON 80,909 thousand (2016: RON 63,488 thousand).

25. DEFERRED TAX

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

GROUP

IN RON THOUSAND	ASSETS	LIABILITIES	NET	DEFERRED TAX ASSET/ (LIABILITY)
Property, plant and equipment and intangible assets	1,174	89,313	(88,139)	(14,103)
Other liabilities	107,900	2,586	105,314	16,850
Valuation reserve financial assets (AFS)	17,270	8,588	8,682	1,389
Provisions for liabilities and charges	81,732	291	81,441	13,031
Total	**208,076**	**100,778**	**107,298**	**17,167**

BANK

IN RON THOUSAND	ASSETS	LIABILITIES	NET	DEFERRED TAX ASSET/ (LIABILITY)
Property, plant and equipment and intangible assets	1,174	89,313	(88,139)	(14,102)
Other liabilities	107,900	2,586	105,314	16,850
Valuation reserve financial assets (AFS)	17,270	8,588	8,682	1,389
Provisions for liabilities and charges	80,999	291	80,708	12,913
Total	**207,343**	**100,778**	**106,565**	**17,050**

Deferred tax assets as at December 31, 2016 are attributable to the items detailed in the table below:

GROUP

IN RON THOUSAND	ASSETS	LIABILITIES	NET	DEFERRED TAX ASSET/ (LIABILITY)
Property, plant and equipment and intangible assets	1,359	73,812	(72,453)	(11,593)
Other liabilities	77,908	1,947	75,961	12,154
Valuation reserve financial assets (AFS)	–	5,322	(5,322	(852)
Provisions for liabilities and charges	84,016	–	84,016	13,443
Total	**163,283**	**81,081**	**82,202**	**13,152**

BANK

IN RON THOUSAND	ASSETS	LIABILITIES	NET	DEFERRED TAX ASSET/ (LIABILITY)
Property, plant and equipment and intangible assets	1,359	72,142	(70,783)	(11,325)
Other liabilities	77,908	1,947	75,961	12,154
Valuation reserve financial assets (AFS)	–	5,322	(5,322)	(852)
Provisions for liabilities and charges	83,325	–	83,325	13,332
Investment in subsidiaries, associates and joint ventures	–	1,670	(1,670)	(267)
Total	**162,592**	**81,081**	**81,511**	**13,042**

	GROUP		BANK	
IN RON THOUSAND	2017	2016	2017	2016
Investment in subsidiaries, associates and joint ventures	–	(7,234)	267	(7,501)
Property, plant and equipment and intangible assets	(2,510)	(1,002)	(2,777)	(735)
Other assets	–	(4,604)	–	(4,604)
Other liabilities	5,185	(1,684)	4,696	(1,684)
Provisions for liabilities and charges	(412)	1,324	(419	1,314
Deferred tax expense	**2,263**	**(13,200)**	**1,767**	**(13,210)**

Deferred tax related to items recognised in other comprehensive income during the year is due to unrealised gain/loss on available for sale financial assets.

26. OTHER ASSETS

	GROUP		BANK	
IN RON THOUSAND	31 DECEMBER 2017	31 DECEMBER 2016	31 DECEMBER 2017	31 DECEMBER 2016
Prepayments	41,646	38,563	40,871	38,425
Income receivable	–	2,495	–	2,495
Clearing claims from payment transfer business (i)	136,053	68,078	136,053	68,078
Receivable from sale of loans	3,078	2,568	3,078	2,568
Sundry debtors (ii)	49,457	69,356	57,994	78,354
Inventories	2,893	7,109	2,893	7,109
Repossessed assets	29,297	11,802	28,977	11,802
Other	25,404	5,456	–	–
Total	**287,828**	**205,427**	**269,866**	**208,831**

i) Clearing claims from payment transfer business include amounts to be settled as of December 31, like: cards transactions of RON 129,553 thousand (2016: RON 30,693 thousand), sales and purchase of cash transactions of RON 412 thousand (2016: RON 34,627 thousand), Western Union transactions in course of settlement of RON 5,943 thousand (2016: RON 2,803 thousand) and others. Out of RON 136,053 thousands, RON 132,754 thousands will settle with current accounts with banks while RON 3,299 thousands will settle with customer current accounts.
ii) *Group:* Sundry debtors balance is presented at net book value, respectively gross book value in amount of 88,178 RON thousand (2016: 119,132 RON thousand) decreased with impairment in amount of RON 38,721 thousand (2016: RON 49,776 thousand).
Bank: Sundry debtors balance is presented at net book value, respectively gross book value in amount of 97,382 RON thousand (2016: 128,130 RON thousand) decreased with impairment in amount of RON 39,388 thousand (2016: RON 49,776 thousand).

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

	GROUP		BANK	
IN RON THOUSAND	31 DECEMBER 2017	31 DECEMBER 2016	31 DECEMBER 2017	31 DECEMBER 2016
Financial assets	204,350	140,392	186,388	143,796
Non-financial assets	83,478	65,035	83,478	65,035
Total	**287,828**	**205,427**	**269,866**	**208,831**

Out of which:

	GROUP		BANK	
IN RON THOUSAND	31 DECEMBER 2017	31 DECEMBER 2016	31 DECEMBER 2017	31 DECEMBER 2016
Neither past due nor impaired	203,222	139,732	185,259	143,136
Past due but not impaired	2	3	2	3
Impaired assets	1,126	657	1,127	657
Total	**204,350**	**140,392**	**186,388**	**143,796**

27. DEPOSITS FROM BANKS

	GROUP		BANK	
IN RON THOUSAND	31 DECEMBER 2017	31 DECEMBER 2016	31 DECEMBER 2017	31 DECEMBER 2016
Payable on demand	428,517	546,988	428,517	546,988
Sight deposits	60,000	–	60,000	–
Term deposits	19,772	36,026	19,772	36,026
Total	**508,289**	**583,014**	**508,289**	**583,014**

28. DEPOSITS FROM CUSTOMERS

	GROUP		BANK	
IN RON THOUSAND	31 DECEMBER 2017	31 DECEMBER 2016	31 DECEMBER 2017	31 DECEMBER 2016
PAYABLE ON DEMAND				
Retail customers	11,495,876	8,985,808	11,495,876	8,985,808
Non-retail customers	6,329,519	6,351,505	6,370,268	6,358,402
	17,825,395	**15,337,313**	**17,866,144**	**15,344,210**
TERM DEPOSITS				
Retail customers	9,263,462	9,405,196	9,263,462	9,405,196
Non-retail customers	2,605,958	1,631,203	2,605,958	1,631,203
	11,869,420	**11,036,399**	**11,869,420**	**11,036,399**
SAVINGS ACCOUNTS				
Retail customers	1,184	1,232	1,184	1,232
	1,184	1,232	1,184	1,232
Total	**29,695,999**	**26,374,944**	**29,736,748**	**26,381,841**

Notes to the Consolidated and Separate Financial Statements for the Year Ended 31 December 2017

29. TOTAL LONG TERM DEBT

	GROUP		BANK	
IN RON THOUSAND	31 DECEMBER 2017	31 DECEMBER 2016	31 DECEMBER 2017	31 DECEMBER 2016
Commercial banks	576,317	713,958	–	713,958
Multilateral Development Banks	191,900	123,957	76,859	123,957
Other financial institutions	163,741	299,672	163,741	299,672
Total loans from banks and financial institutions	**931,958**	**1,137,587**	**240,600**	**1,137,587**

The loans received from banks and other financial institutions are denominated in EUR, CHF and RON, with a final maturity that varies between October 2018 and December 2026.

	GROUP		BANK	
IN RON THOUSAND	31 DECEMBER 2017	31 DECEMBER 2016	31 DECEMBER 2017	31 DECEMBER 2016
Senior loans from banks and financial institutions	931,958	1,137,587	240,600	1,137,587
Of which unsecured	739,880	1,013,611	163,565	1,013,611
Debt securities issued	512,501	512,239	516,223	515,961
Subordinated liabilities	849,017	954,973	849,017	954,973
Total	**2,293,476**	**2,604,799**	**1,605,840**	**2,608,521**

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

GROUP

IN RON THOUSAND	LESS THAN 1 YEAR	OVER 1 YEAR	TOTAL
Senior loans from banks and financial institutions	410,517	521,441	931,958
Of which unsecured	287,814	452,066	739,880
Debt securities issued	16,613	495,888	512,501
Subordinated liabilities	122,274	726,743	849,017
Total	**549,404**	**1,744,072**	**2,293,476**

BANK

IN RON THOUSAND	LESS THAN 1 YEAR	OVER 1 YEAR	TOTAL
Senior loans from banks and financial institutions	127,301	113,299	240,600
Of which unsecured	85,271	78,294	163,565
Debt securities issued	16,734	499,489	516,223
Subordinated liabilities	122,274	726,743	849,017
Total	**266,309**	**1,339,531**	**1,605,840**

The below table shows the split of total long term debt by contractual maturities as of December 31, 2016:

GROUP

IN RON THOUSAND	LESS THAN 1 YEAR	OVER 1 YEAR	TOTAL
Senior loans from banks and financial institutions	651,628	485,959	1,137,587
Of which unsecured	603,582	410,029	1,013,611
Debt securities issued	16,482	495,757	512,239
Subordinated liabilities	119,086	835,887	954,973
Total	**787,196**	**1,817,603**	**2,604,799**

BANK

IN RON THOUSAND	LESS THAN 1 YEAR	OVER 1 YEAR	TOTAL
Senior loans from banks and financial institutions	651,628	485,959	1,137,587
Of which unsecured	603,582	410,029	1,013,611
Debt securities issued	16,483	499,478	515,961
Subordinated liabilities	119,086	835,887	954,973
Total	**787,197**	**1,821,324**	**2,608,521**

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

As of December 31, 2017, the Bank has outstanding long term debt in the form of debt securities issued, which are tradeable on Bucharest Stock Exchange (BSE).

Group: The balance of debt securities issued as at December 31, 2017, including accrued interest, is in amount of RON 512,501 thousand (December 31, 2016: RON 512,239 thousand).

Bank: The balance of debt securities issued as at December 31, 2017, including accrued interest, is in amount of RON 516,223 thousand (December 31, 2016: RON 515,961 thousand).

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

The subordinated loans in balance as of December 31, 2017 were in amount of EUR 145,000 thousand and CHF 42,000 thousand (December 31, 2016: EUR 170,000 thousand; CHF 42,000). The balance of subordinated liabilities as at December 31, 2017, in RON equivalents, including accrued interest is RON 849,017 thousand (December 31, 2016: RON 954,973 thousand). During 2017 and 2016, the Group had no new subordinated liabilities drawn.

30. PROVISIONS

IN RON THOUSAND	GROUP 31 DECEMBER 2017	GROUP 31 DECEMBER 2016	BANK 31 DECEMBER 2017	BANK 31 DECEMBER 2016
Provisions for litigations and potential risks	32,525	31,943	32,525	31,943
Provision for un-drawn commitments	25,542	24,286	25,542	24,286
Provision for employee benefits	4,118	4,487	4,118	4,487
Provisions for overdue vacations	9,875	8,746	9,666	8,746
Provisions for share incentive plan	1,586	2,513	1,586	2,513
Provisions for severance payments and similar obligations	4,177	42	4,000	42
Sundry provisions	2,641	5,118	600	5,118
Total	**80,464**	**77,135**	**78,037**	**77,135**

During 2017 the provisions can be further analyzed as follows:

GROUP

IN RON THOUSAND	OPENING BALANCE	ALLOCATION	RELEASE	USAGE	FX	CHANGE IN CONSOLIDATION	CLOSING BALANCE
Provisions for litigations and potential risks	31,943	6,697	–	(6,583)	468	–	32,525
Provision for un-drawn commitments	24,286	11,723	(10,438)	–	(29)	–	25,542
Provisions for employee benefits	4,487	–	(369)	–	–	–	4,118
Provisions for overdue vacations	8,746	979	(59)	–	–	209	9,875
Provisions for share incentive plan	2,513	312	(1,282)	–	43	–	1,586
Provisions for severance payments and similar obligations	42	3,958	–	–	–	–	4,177
Sundry provisions	5,118	3,545	(5,290)	(2,672)	–	1,940	2,641
Total	**77,135**	**27,214**	**(17,438)**	**(9,255)**	**482**	**2,326**	**80,464**

During 2016 the provisions can be further analyzed as follows:

GROUP

IN RON THOUSAND	OPENING BALANCE	ALLOCATION	RELEASE	USAGE	FX	CLOSING BALANCE
Provisions for litigations and potential risks	45,125	–	(7,573)	(5,627)	18	31,943
Provision for un-drawn commitments	30,030	7,880	(13,598)	–	(26)	24,286
Provisions for employee benefits	4,724	–	(237)	–	–	4,487
Provisions for overdue vacations	8,112	634	–	–	–	8,746
Provisions for share incentive plan	2,816	754	(48)	–	(1,009)	2,513
Provisions for severance payments and similar obligations	490	–	(294)	(154)	–	42
Sundry provisions	2,100	7,666	(1,551)	(3,097)	–	5,118
Total	**93,397**	**16,934**	**(23,301)**	**(8,878)**	**(1,017)**	**77,135**

During 2017 the provisions can be further analyzed as follows:

BANK

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

During 2016 the provisions can be further analyzed as follows:

BANK

IN RON THOUSAND	OPENING BALANCE	ALLOCA-TION	RELEASE	USAGE	FX	CLOSING BALANCE
Provisions for litigations and potential risks	45,125	–	(7,573)	(5,627)	18	31,943
Provision for un-drawn commitments	30,030	7,880	(13,598)	–	(26)	24,286
Provisions for employee benefits	4,724	–	(237)	–	–	4,487
Provisions for overdue vacations	8,112	634	–	–	–	8,746
Provisions for share incentive plan	2,816	754	(48)	–	(1,009)	2,513
Provisions for severance payments and similar obligations	490	–	(294)	(154)	–	42
Sundry provisions	2,100	7,666	(1,551)	(3,097)	–	5,118
Total	**93,397**	**16,934**	**(23,301)**	**(8,878)**	**(1,017)**	**77,135**

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

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

As of December 31, 2017, the provisions related to consumer loans litigations amounted to 24,634 RON thousand (2016: RON 23,873 thousand). Those litigations are due to contractual clauses that may generate losses because they are considered unfair by customers. The existing provisions are both for ongoing litigations and for potential litigations which might result in litigation in the future and may generate losses as a result of potential unfavorable court decision.

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

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

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

Statistical assumptions used in provision computation in 2017 are consistent with those at year end 2016, revised as per current year available information.

31. OTHER LIABILITIES

IN RON THOUSAND	GROUP 31 DECEMBER 2017	GROUP 31 DECEMBER 2016	BANK 31 DECEMBER 2017	BANK 31 DECEMBER 2016
Amounts due to state budget for social security	25,989	25,256	25,721	25,077
Short-term employee benefits	63,255	66,179	62,545	65,488
Accrual for suppliers	97,695	96,801	97,407	105,516
Cash in transit (i)	214,262	159,407	214,262	159,407
Deferred income	46,342	44,745	46,342	44,745
Other liabilities (ii)	88,284	90,110	84,770	80,902
Total	**535,827**	**482,498**	**531,047**	**481,135**

i) Cash in transit includes payments which should be settled with other banks of RON 170,657 thousand (2016: RON 126,460 thousand) and receipts which should be settled with current accounts RON 43,447 thousand (2016: RON 32,933 thousand). Out of RON 214,262 thousands, RON 134,780 thousands will settle with current accounts with banks while 79,482 will settle with customers' current accounts.
ii) Other liabilities include credit cards of RON 28,447 thousand (2016: RON 14,682 thousand), deposits representing the share capital at companies in course of set-up of RON 15,610 thousand (2016: RON 13,115 thousand) and receivable from guarantees received of RON 10,379 thousand (2016: RON 10,257 thousand).

32. SHARE CAPITAL AND TREASURY SHARES

As of December 31, 2017 the number of shares is 12,000 and there were no changes in shares structure.

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

The dividends paid by Raiffeisen Bank S.A during 2017 were amounted to RON 180,000,000 from retained earnings (dividend per share RON 15 thousands/share).

The shareholders of the Group are as follows:

	31 DECEMBER 2017 %	31 DECEMBER 2016 %
Raiffeisen SEE Region Holding GmbH	99.925	99.925
Other shareholders	0.075	0.075
Total	**100**	**100**

33. OTHER RESERVES

IN RON THOUSAND	GROUP 31 DECEMBER 2017	GROUP 31 DECEMBER 2016	BANK 31 DECEMBER 2017	BANK 31 DECEMBER 2016
Statutory reserve (i)	242,128	242,128	240,000	240,000
Fair value loss taken to equity (net of tax), available for sale investments	(7,929)	4,254	(5,889)	5,873
Total	**234,199**	**246,382**	**234,111**	**245,873**

STATUTORY RESERVES

IN RON THOUSAND	GROUP 2017	GROUP 2016	BANK 2017	BANK 2016
At 1 January	**242,128**	**220,995**	**240,000**	**218,865**
Appropriations of profit	–	21,133	–	21,135
At 31 December	**242,128**	**242,128**	**240,000**	**240,000**

(i) Statutory reserves represent accumulated transfers from retained earnings in accordance with local banking regulations that require 5% of the Group's gross profit to be transferred to a non-distributable statutory reserve until such time this reserve represents 20% of the Group's share capital. The statutory reserves are not distributable to shareholders.

FAIR VALUE RESERVE FOR FINANCIAL ASSETS AVAILABLE FOR SALE

IN RON THOUSAND	GROUP 2017	GROUP 2016	BANK 2017	BANK 2016
At 1 January	**4,254**	**60,220**	**5,873**	**61,804**
Change in fair value reserve (for available for sale financial assets)	(12,183)	(55,966)	(11,762)	(55,931)
At 31 December	**(7,929)**	**4,254**	**(5,889)**	**5,873**

34. RELATED PARTY TRANSACTIONS

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

The transactions and balances with related parties are presented in tables below:

GROUP

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

GROUP

						2016
IN RON THOUSAND	**PARENT**	**ASSOCIATES**	**JOINT VENTURES**	**KEY PERSO-NNEL**	**OTHER INTERST**	**TOTAL**
Trading assets	22,835	–	72	–	–	22,907
Derivative assets held for risk management	1,013	–	–	–	–	1,013
Deposits to banks	21,372	–	–	–	216	21,588
Loans and advances to customers	–	–	93,455	8,055	89,735	191,245
Investment securities	–	–	–	–	2,233	2,233
Other assets	790	1,420	1,110	10	5,204	8,534
Outstanding receivables	**46,010**	**1,420**	**94,637**	**8,065**	**97,388**	**247,520**
Derivative liabilities held for risk management	4,101	–	–	–	–	4,101
Trading liabilities	43,035	–	–	–	–	43,035
Deposits from banks	47,571	–	5	–	25,516	73,092
Deposits from customers	–	17	73,881	13,708	96,185	183,791
Loans from banks and other financial institutions	713,939	–	–	–	–	713,939
Debt securities issued	–	–	–	–	4,572	4,572
Subordinated liabilities	955,076	–	–	–	–	955,076
Other liabilities	18,826	–	–	–	2,917	21,743
Outstanding payables	**1,782,548**	**17**	**73,886**	**13,708**	**129,190**	**1,999,349**
Commitments given	87,239	–	7,000	683	173,181	268,103
Guarantees issued	119,304	–	2,779	–	48,533	170,616
Commitments received	681,165	–	–	–	–	681,165
Guarantees received	182,511	–	–	–	54,254	236,765
Notional amount of derivative instruments	6,010,140	–	7,073	–	–	6,017,213

BANK

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

BANK

							2016
IN RON THOUSAND	**PARENT**	**ASSO-CIATES**	**JOINT VENTURES**	**KEY PERSO-NNEL**	**OTHER INTERST**	**TOTAL**	**TOTAL**
Trading assets	22,835	64	–	72	–	–	22,971
Derivative assets held for risk management	1,013	–	–	–	–	–	1,013
Deposits to banks	21,372	–	–	–	–	216	21,588
Loans and advances to customers	–	–	–	93,455	8,055	89,735	191,245
Investment securities	–	–	–	–	–	2,233	2,233
Investment in subsidiaries, associates and joint ventures	–	10,656	6,069	45,900	–	–	62,625
Other assets	790	8,955	1,420	1,110	10	5,204	17,489
Outstanding receivables	**46,010**	**19,675**	**7,489**	**140,537**	**8,065**	**97,388**	**319,164**
Derivative liabilities held for risk management	4,101	–	–	–	–	–	4,101
Trading liabilities	43,035	–	–	–	–	–	43,035
Deposits from banks	47,571	–	–	5	–	25,516	73,092
Deposits from customers	–	6,897	17	73,881	13,708	96,185	190,688
Loans from banks and other financial institutions	713,939	–	–	–	–	–	713,939
Debt securities issued	–	3,724	–	–	–	4,572	8,296
Subordinated liabilities	955,076	–	–	–	–	–	955,076
Other liabilities	18,826	–	–	–	–	2,917	21,743
Outstanding payables	**1,782,548**	**10,621**	**17**	**73,886**	**13,708**	**129,190**	**2,009,970**
Commitments given	87,239	–	–	7,000	683	173,181	268,103
Guarantees issued	119,304	–	–	2,779	–	48,533	170,616
Commitments received	681,165	–	–	–	–	–	681,165
Guarantees received	182,511	–	–	–	–	54,254	236,765
Notional amount of derivative instruments	6,010,140	8,555	–	7,073	–	–	6,025,768

GROUP

						2017
IN RON THOUSAND	**PARENT**	**ASSOCIATES**	**JOINT VENTURES**	**KEY PERSO-NNEL**	**OTHER INTERST**	**TOTAL**
Interest income	124	–	–	193	4,021	4,338
Interest expenses	(49,613)	–	–	(24)	(1,175)	(50,812)
Fees and commissions income	1,950	–	185	4	996	3,135)
Fees and commissions expenses	(7,099)	–	–	–	(14,020)	(21,119)
Net trading income	(17,069)	–	–	–	–	(17,069)
Operating expenses	(31,838)	–	–	–	(44,527)	(76,365)
Personnel expenses	–	–	–	(32,358)	–	(32,358)
Other operating income	233	–	1,182	–	1,953	3,368

						2016
IN RON THOUSAND	**PARENT**	**ASSOCIATES**	**JOINT VENTURES**	**KEY PERSO-NNEL**	**OTHER INTERST**	**TOTAL**
Interest income	127	–	1,577	215	3,169	5,088
Interest expenses	(56,180)	–	(1)	(42)	(1,533)	(57,756)
Fees and commissions income	1,238	32	5,312	1	829	7,412
Fees and commissions expenses	(325)	–	–	–	(13,583)	(13,908)
Net trading income	(4,793)	–	49	–	–	(4,744)
Operating expenses	(39,050)	–	(1,251)	–	(34,991	(75,292)
Personnel expenses	–	–	–	(31,683)	–	(31,683)
Other operating income	21	1,421	3,430	–	2,724	7,596

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

Notes to the Consolidated and Separate Financial Statements for the Year Ended 31 December 2017

BANK

IN RON THOUSAND	PARENT	SUBSIDIA-RIES	ASSOCIATES	JOINT VENTURES	KEY PERSONNEL	OTHER INTEREST	TOTAL
							2017
Interest income	124	2,132	–	–	193	4,021	6,470
Interest expenses	(49,613)	(193)	–	–	(24)	(1,175)	(51,005)
Fees and commissions income	1,950	37,386	–	185	4	996	40,521
Fees and commissions expenses	(7,099)	–	–	–	–	(14,020)	(21,119)
Net trading income	(17,069)	560	–	–	–	–	(16,509)
Operating expenses	(31,838)	–	–	–	–	(44,527)	(76,365)
Personnel expenses	–	–	–	–	(32,358)	–	(32,358)
Other operating income	233	7,116	–	1,182	–	1,953	10,484

IN RON THOUSAND	PARENT	SUBSIDIA-RIES	ASSOCIATES	JOINT VENTURES	KEY PERSONNEL	OTHER INTEREST	TOTAL
							2016
Interest income	127	–	–	1,577	215	3,169	5,088
Interest expenses	(56,180)	(275)	–	(1)	(42)	(1,533)	(58,031)
Fees and commissions income	1,238	34,949	32	5,312	1	829	42,361
Fees and commissions expenses	(325)	–	–	–	–	(13,583)	(13,908)
Net trading income	(4,793	263	–	49	–	–	(4,481)
Operating expenses	(39,050)	(321)	–	(1,251)	–	(34,991)	(75,613)
Personnel expenses	–	–	–	–	(31,683)	–	(31,683)
Other operating income	21	13,454	1,421	3,430	–	2,724	21,050

In 2016 the Group purchased from Rieef a portfolio comprising legal entities at the fair value in amount of RON 337,067 thousand.

Transactions with key management personnel

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

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

The volumes of related-party transactions as at year-end and expense and income for the year are presented in the below tables:

		GROUP		BANK
IN RON THOUSAND	**2017**	**2016**	**2017**	**2016**
Loans and advances to customers	**7,244**	**8,055**	**7,244**	**8,055**
Interest income and fees and commission income	**197**	**216**	**197**	**216**
Deposits	**12,747**	**13,708**	**12,747**	**13,708**
Interest expense	**(24)**	**(42)**	**(24)**	**(42)**

No impairment losses have been recognized in respect of loans given to key management personnel of the Group (31 December 2016: RON nil).

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

KEY MANAGEMENT PERSONNEL COMPENSATION

		GROUP		BANK
IN RON THOUSAND	**2017**	**2016**	**2017**	**2016**
Short-term employee benefits	**29,053**	**29,347**	**29,053**	**29,347**
Other long term benefits	**2,742**	**2,049**	**2,742**	**2,049**
Share-based payment	**563**	**287**	**563**	**287**
Total compensation	**32,358**	**31,683**	**32,358**	**31,683**

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

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

35. COMMITMENTS AND CONTINGENCIES

i) Credit related commitments

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

Credit related commitments
Loan commitments represent unused amounts of approved credit facilities.

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

	GROUP		BANK	
IN RON THOUSAND	31 DECEMBER 2017	31 DECEMBER 2016	31 DECEMBER 2017	31 DECEMBER 2016
Loan commitments	8,747,935	7,075,803	8,707,230	7,075,803
Guarantees issued	1,872,210	1,606,984	1,872,210	1,606,984
Letters of credit	522,177	405,260	522,177	405,260
Total	**11,142,322**	**9,088,047**	**11,101,617**	**9,088,047**

ii) Contingencies from operating lease

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

	GROUP		BANK	
IN RON THOUSAND	31 DECEMBER 2017	31 DECEMBER 2016	31 DECEMBER 2017	31 DECEMBER 2016
Less than 1 year	100,696	104,537	99,539	104,285
1 – 5 year	284,488	269,870	280,402	268,863
More than 5 years	123,615	151,016	118,268	149,433
Total	**508,799**	**525,423**	**498,209**	**522,581**

iii) Other contingent liabilities

As of 20 October 2017, the Bank received from National Authority for Consumer Protection (further called "ANPC") an order which requires the cancellation of incorrect practices of non-informing the customers about the future interest increase above the one applicable on loan origination.

Except for the RON 50,000 fine, the order requires to bring the contracts to the situation before the illegal practice, including the issue of a new reimbursement plan, with the conditions applicable on signing date. This is in contradiction with the effects of an order aimed at stopping a practice which has effects in the future, and is not an action in cancellation which would have been retrospective. As of 21 December 2017, the Bank obtained, in court, the suspension of the order.

On November 2017, the Bank was notified by the National Authority of Fiscal Administration (further called "ANAF") about a fiscal inspection on current income tax, the period under inspection being 1 January 2011 – 31 December 2016. The previous fiscal inspection was related to the period 1 January 2005-31 December 2009 and had as main objective the review of taxes and contributions due to the consolidated budget. As of the date of these financial statements, the inspection is ongoing.

In December 2017, the Bank received an inspection from the Competition Council. The object of inspection was the banking leasing association. As of the date of these financial statements, the Bank did not receive the inspection report. However, in our opinion the bank's activity is not the main scope of the inspection.

Based on the analysis performed, the above three situations do not fulfil the conditions for recognizing any provision, but only those of contingent liabilities.
As a consequence, the Bank did not recognize any provisions as of 31 December 2017 for these situations.

Notes to the Consolidated and Separate Financial Statements for the Year Ended 31 December 2017

36. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled.

GROUP

			2017			2016
IN RON THOUSAND	**WITHIN 12 MONTHS**	**AFTER 12 MONTHS**	**TOTAL**	**WITHIN 12 MONTHS**	**AFTER 12 MONTHS**	**TOTAL**
Cash and cash with Central Bank	8,471,977	–	8,471,977	8,203,157	–	8,203,157
Trading assets	86,298	–	86,298	443,694	–	443,694
Derivative assets held for risk management	35,237	–	35,237	1,013	–	1,013
Loans and advances to banks	89,168	–	89,168	546,165	–	546,165
Loans and advances to customers	7,388,855	14,772,419	22,161,274	7,499,675	12,261,367	19,761,042
Investment securities	1,992,378	3,257,436	5,249,814	1,458,101	2,391,489	3,849,590
Investment in subsidiaries, associates and joint ventures	–	23,911	23,911	–	69,122	69,122
Tax receivable	541	–	541	12,775	–	12,775
Property, plant and equipment	–	221,082	221,082	–	236,092	236,092
Intangible assets	–	162,118	162,118	–	119,414	119,414
Deferred tax assets	–	17,167	17,167	–	13,152	13,152
Other assets	274,003	13,825	287,828	192,015	13,412	205,427
Total	**18,338,457**	**18,467,958**	**36,806,415**	**18,356,595**	**15,104,048**	**33,460,643**
Trading liabilities	29,291	–	29,291	60,124	–	60,124
Derivative liabilities held for risk management	50,844	–	50,844	4,120	–	4,120
Deposits from banks	500,439	7,850	508,289	568,545	14,469	583,014
Deposits from customers	29,449,598	246,401	29,695,999	26,153,314	221,630	26,374,944
Current tax liabilities	21,582	–	21,582	102	–	102
Loans from banks and other financial institutions	410,517	521,441	931,958	651,628	485,959	1,137,587
Debt securities issued	16,613	495,888	512,501	16,482	495,757	512,239
Subordinated liabilities	122,274	726,743	849,017	119,086	835,887	954,973
Provisions	44,742	35,722	80,464	41,440	35,695	77,135
Other liabilities	511,797	24,030	535,827	469,537	12,961	482,498
Total	**31,157,697**	**2,058,075**	**33,215,772**	**28,084,378**	**2,102,358**	**30,186,736**

BANK

			2017			2016
IN RON THOUSAND	**WITHIN 12 MONTHS**	**AFTER 12 MONTHS**	**TOTAL**	**WITHIN 12 MONTHS**	**AFTER 12 MONTHS**	**TOTAL**
Cash and cash with Central Bank	8,471,851	–	8,471,851	8,203,153	–	8,203,153
Trading assets	86,775	–	86,775	443,758	–	443,758
Derivative assets held for risk management	35,237	–	35,237	1,013	–	1,013
Loans and advances to banks	85,641	–	85,641	546,165	–	546,165
Loans and advances to customers	7,064,297	14,358,635	21,422,932	7,499,650	12,261,367	19,761,017
Investment securities	1,958,763	3,251,731	5,210,494	1,441,634	2,370,852	3,812,486
Investment in subsidiaries, associates and joint ventures	–	105,379	105,379	–	62,655	62,655
Tax receivable	–	–	–	12,775	–	12,775
Property, plant and equipment	–	219,485	219,485	–	235,679	235,679
Intangible assets	–	159,997	159,997	–	119,236	119,236
Deferred tax assets	–	17,050	17,050	–	13,042	13,042
Other assets	256,041	13,825	269,866	196,652	12,179	208,831
Total	**17,958,605**	**18,126,102**	**36,084,707**	**18,344,800**	**15,075,010**	**33,419,810**
Trading liabilities	29,603	–	29,603	60,124	–	60,124
Derivative liabilities held for risk management	50,245	–	50,245	4,101	–	4,101
Deposits from banks	500,439	7,850	508,289	568,545	14,469	583,014
Deposits from customers	29,490,347	246,401	29,736,748	26,160,211	221,630	26,381,841
Current tax liabilities	21,544	–	21,544	–	–	–
Loans from banks and other financial institutions	127,301	113,299	240,600	651,628	485,959	1,137,587
Debt securities issued	16,734	499,489	516,223	16,483	499,478	515,961
Subordinated liabilities	122,274	726,743	849,017	119,086	835,887	954,973
Provisions	42,315	35,722	78,037	41,440	35,695	77,135
Other liabilities	507,017	24,030	531,047	468,174	12,961	481,135
Total	**30,907,819**	**1,653,534**	**32,561,353**	**28,089,792**	**2,106,079**	**30,195,871**

Notes to the Consolidated and Separate Financial Statements for the Year Ended 31 December 2017

37. CAPITAL

The capital management of the Group is defined through the capital strategy approved by the Management Board and is reviewed at least once every year.

The primary objective of the Group's capital management is to ensure an adequate level of capital, which meets not only the regulatory requirements, but also the limits set in the capital strategy.

The Management Board of the Group actively manages the capital structure and seeks to maintain at all times a higher level of capital than the regulatory one in order to ensure a comfortable position in achieving the Group's business objectives.

No major changes have been made to the objectives and policies regarding capital management compared to the previous year.

Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No.648/2012 requires that the Group maintain a minimum Common Equity Tier 1 capital ratio of 4.5%, a minimum Tier 1 capital ratio of 6 % and a minimum total capital ratio of 8 %.

According to supervisory review, Group was requested through an official notification to hold additional capital to cover risks that are not or not adequately taken into account under pillar I. The Group is also subject to Conservation and other systemically important institutions buffer. The Group is compliant with all of the above requirements.

	GROUP		BANK	
IN THOUSAND RON	**2017**	**2016**	**2017**	**2016**
Tier 1 Capital	2,868,693	2,645,108	2,807,777	2,586,669
Tier 2 Capital	523,761	692,046	510,458	685,237
Total capital	**3,392,454**	**3,337,154**	**3,318,235**	**3,271,906**
Risk weighted assets	**21,823,975**	**20,116,661**	**20,849,004**	**19,479,667**
Common Equity Tier 1 Capital ratio	13.14%	13.15%	13.47%	13.28%
Tier 1 Capital ratio	13.14%	13.15%	13.47%	13.28%
Total Capital ratio	15.54%	16.59%	15.92%	16.80%

Regulatory capital consists of Tier 1 and Tier 2 layers of capital. Tier 1 is made of share capital, premium reserves, retained earning (excluding current year profit) and deductions according to legislation in force. Tier 2 capital includes subordinated long-term debt and deductions according to legislation in force.

38. SEGMENTS CONSOLIDATION

Key decisions are made by chief operating decision makers determining the resources allocated to each segment based on its financial strength and profitability.

The Group follows financial performance and steers the business by segments and products, namely customer business consists of Corporate, Retail, Financial Institutions and Own employees. Corporate comprises legal entities with an annual turnover exceeding EUR 5 million. Retail contains individual clients and legal entities with an annual turnover below the EUR 5 million threshold (small and medium entities), while Financial Institutions (part of Treasury Division) deals with brokers, banks, insurance companies, leasing firms, investment and pension funds, as well as asset management companies.

The Group offers a wide array of banking services to its customers, adapted to the ever-changing needs of our clients, but with maintained focus on the basics of banking.

Customer business lines bring in more than 85% of the Group's operating income, with following specifics worth mentioning: corporate clients chiefly draw their revenue streams from lending business, followed by fees from cash management, account services, foreign currency deals and investment banking activity.

Small clients also share these characteristics, while their unique business traits are visible through more intense payment and account activity, thus generating visibly greater proportion of the revenues as fees.

Private individual customers provide a highly diversified revenue source for the Group, mainly from unsecured loans, credit card and overdraft facilities, but also from mortgage loans, saving products and transactional business, FX deals and asset management services, as well as from the activity of intermediating transactions on the stock exchange; the Group continues to focus its attention on promoting alternative channels usage and thus provide improved services with advantages for both sides. Revenues are also brought in from loans and deposits granted to own employees, reported below as part of segment "Others".

Proprietary business consists of Treasury Division (less Financial Institutions) and "Others" segment (less Own employees). The first mainly provides income streams from treasury activities, namely trading revenues, net income from financial assets held at fair value through profit and loss, as well as from interest contribution. The latter shows revenues mainly obtained as a result of transfers among segments, capital benefit, income generated by participations.

Regarding the segmentation by geographical area, the Group is performing its activity mainly under geographical area of Romania.

Notes to the Consolidated and Separate Financial Statements for the Year Ended 31 December 2017

GROUP

IN RON THOUSAND	CORPORATE CUSTOMERS	PRIVATE INDIVIDUALS	SME	TREASURY DIVISION	OTHERS	TOTAL UNIT
						2017
Total Assets before impairment losses on loans and advances	7,986,177	12,518,169	2,237,849	11,839,557	3,296,000	37,877,752
Impairment losses on loans and advances	(247,019)	(709,262)	(97,354)	(27)	(17,675)	(1,071,337)
Total Assets	**7,739,158**	**11,808,907**	**2,140,495**	**11,839,530**	**3,278,325**	**36,806,415**
Total Liabilities	**6,911,572**	**16,870,211**	**4,857,492**	**3,643,690**	**932,807**	**33,215,772**
Equity	–	–	–	–	**3,590,643**	**3,590,643**
Net interest income	214,933	732,355	163,393	49,834	17,533	1,178,048
Net commission income	128,175	272,265	174,125	11,402	350	586,317
Net Trading income	45,519	119,018	57,171	88,591	969	311,268
Net income from financial investments	(409)	–	–	6,128	202	5,921
Other net operating income	(5)	(1)	–	(1)	44,953	44,946
Total Operating income	**388,213**	**1,123,637**	**394,689**	**155,954**	**64,007**	**2,126,500**
Operating expenses	(111,929)	(405,164)	(140,178)	(17,711)	(52,762)	(727,744)
Personnel expenses	(77,619)	(335,991)	(121,167)	(13,649)	(7,380)	(555,806)
Net provisioning for impairment losses	(65,397)	(163,979)	(4,015)	(22)	(12,210)	(245,623)
Negative goodwill	–	–	–	–	5,245	5,245
Share of loss of associates	–	(1,692)	–	–	3,177	1,485
Profit before tax	**133,268**	**216,811**	**129,329**	**124,572**	**77**	**604,057**
Income taxes	–	–	–	–	(95,138)	(95,138)
Profit after tax	**133,268**	**216,811**	**129,329**	**124,572**	**(95,061)**	**508,919**

Notes to the Consolidated and Separate Financial Statements for the Year Ended 31 December 2017

GROUP

						2016
IN RON THOUSAND	**CORPORATE CUSTOMERS**	**PRIVATE INDIVIDUALS**	**SME**	**TREASURY DIVISION**	**OTHERS**	**TOTAL UNIT**
Total Assets before impairment losses on loans and advances	7,122,355	11,326,556	1,748,259	11,802,209	2,696,325	34,695,704
Impairment losses on loans and advances	(530,030)	(572,663)	(124,847)	(1)	(7,520)	(1,235,061)
Total Assets	**6,592,325**	**10,753,893**	**1,623,412**	**11,802,208**	**2,688,805**	**33,460,643**
Total Liabilities	**6,475,599**	**14,792,510**	**4,387,066**	**3,597,000**	**934,561**	**30,186,736**
Equity	–	–	–	–	**3,273,907**	**3,273,907**
Net interest income	227,205	688,285	157,322	5,396	33,896	1,112,104
Net commission income	105,951	316,784	183,038	14,775	834	621,382
Net Trading income	51,948	108,520	56,260	83,222	791	300,741
Net income from financial investments	2,134	63,016	27,773	(85,352)	213	7,784
Other net operating income	4,441	2,286	–	(2)	123,683	130,408
Total Operating income	**391,679**	**1,178,891**	**424,393**	**18,039**	**159,417**	**2,172,419**
Operating expenses	(96,636)	(352,047)	(114,244)	(18,928)	(56,868)	(638,723)
Personnel expenses	(80,789)	(326,655)	(100,608)	(18,192)	(6,569)	(532,813)
Net provisioning for impairment losses	(53,892)	(366,884)	(45,307)	(2)	(3,184)	(469,269)
Share of loss of associates	–	708	1	–	8,853	9,562
Profit before tax	**160,362**	**134,013**	**164,235**	**(19,083**	**101,649**	**541,176**
Income taxes	–	–	–	–	(91,898)	(91,898)
Profit after tax	**160,362**	**134,013**	**164,235**	**(19,083)**	**9,751**	**449,278**

BANK

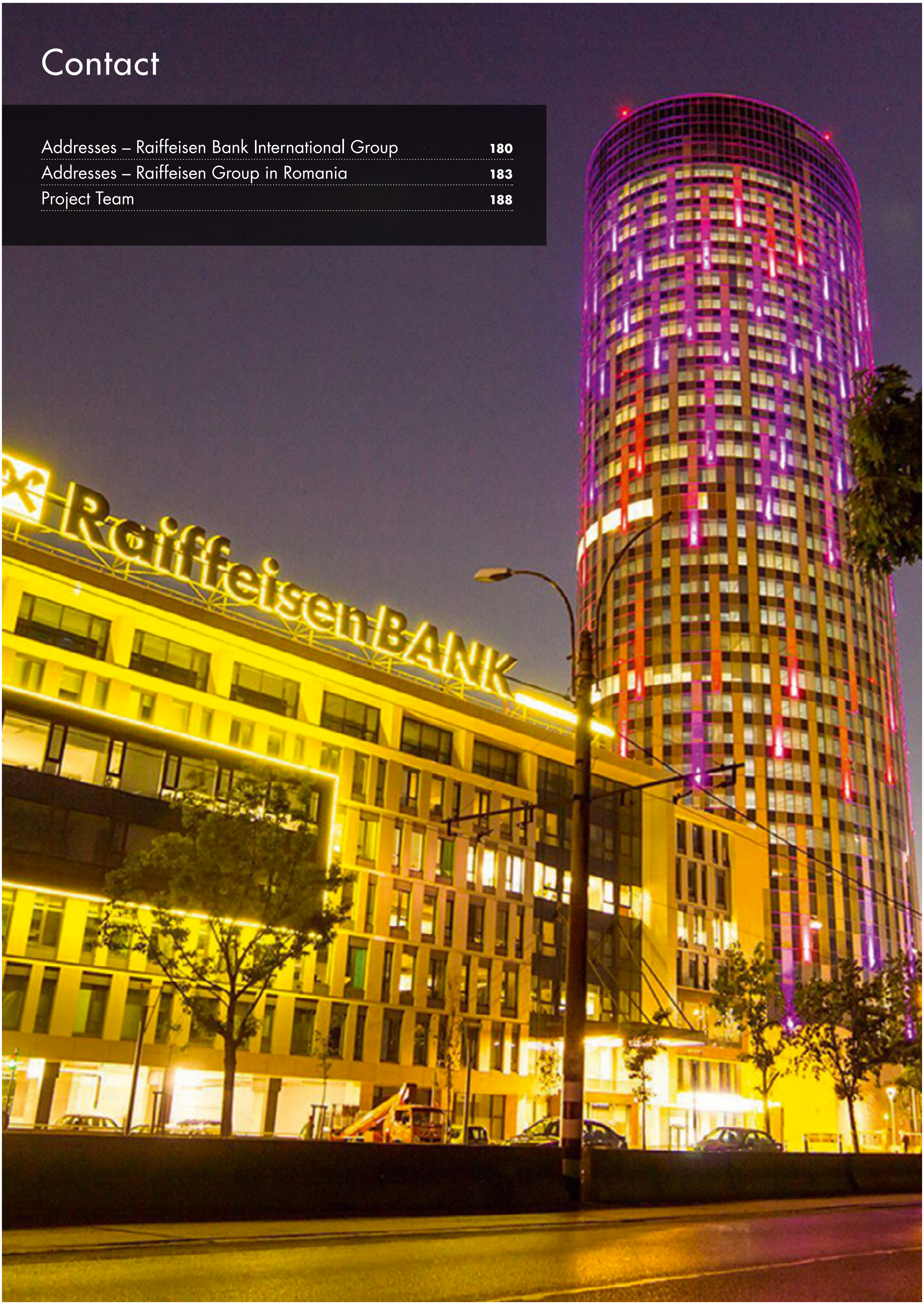
						2017
IN RON THOUSAND	**CORPORATE CUSTOMERS**	**PRIVATE INDIVIDUALS**	**SME**	**TREASURY DIVISION**	**OTHERS**	**TOTAL UNIT**
Total Assets before impairment losses on loans and advances	7,694,153	12,492,268	1,889,193	11,759,079	3,291,995	37,126,688
Impairment losses on loans and advances	(233,788)	(709,226)	(85,047)	(27)	(13,893)	(1,041,981)
Total Assets	**7,460,365**	**11,783,042**	**1,804,146**	**11,759,052**	**3,278,102**	**36,084,707**
Total Liabilities	**6,907,636**	**16,870,133**	**4,853,295**	**2,996,846**	**933,443**	**32,561,353**
Equity	–	–	–	–	**3,523,354**	**3,523,354**
Net interest income	206,670	730,906	149,077	50,141	15,139	1,151,933
Net commission income	126,479	260,006	169,195	12,261	349	568,290
Net Trading income	45,519	119,018	57,171	88,105	968	310,781
Net income from financial investments	–	–	–	6,128	–	6,128
Other net operating income	–	–	–	–	48,563	48,563
Total Operating income	**378,668**	**1,109,930**	**375,443**	**156,635**	**65,019**	**2,085,695**
Operating expenses	(110,298)	(401,892)	(136,961)	(17,507)	(52,636)	(719,294)
Personnel expenses	(74,589)	(330,171)	(112,912)	(13,649)	(7,043)	(538,364)
Net provisioning for impairment losses	(59,697)	(164,187)	(8,161)	(22)	(12,210)	(244,277)
Profit before tax	**134,084**	**213,680**	**117,409**	**125,457**	**(6,870)**	**583,760**
Income taxes	–	–	–	–	(92,583)	(92,583)
Profit after tax	**134,084**	**213,680**	**117,409**	**125,457**	**(99,453)**	**491,177**

BANK

IN RON THOUSAND	CORPORATE CUSTOMERS	PRIVATE INDIVIDUALS	SME	TREASURY DIVISION	OTHERS	TOTAL UNIT
						2016
Total Assets before impairment losses on loans and advances	7,122,355	11,326,553	1,748,259	11,765,149	2,692,555	34,654,871
Impairment losses on loans and advances	(530,030)	(572,663)	(124,847	(1)	(7,520)	(1,235,061)
Total Assets	**6,592,325**	**10,753,890**	**1,623,412**	**11,765,148**	**2,685,035**	**33,419,810**
Total Liabilities	**6,475,599**	**14,792,510**	**4,387,066**	**3,597,000**	**943,696**	**30,195,871**
Equity	**–**	**–**	**–**	**–**	**3,223,939**	**3,223,939**
Net interest income	227,205	688,285	157,322	4,353	33,897	1,111,062
Net commission income	105,399	305,390	181,579	14,775	834	607,977
Net Trading income	51,948	108,520	56,260	83,114	791	300,633
Net income from financial investments	2,134	63,016	27,773	(85,352)	–	7,571
Other net operating income	4,451	2,288	–	–	141,564	148,303
Total Operating income	**391,137**	**1,167,499**	**422,934**	**16,890**	**177,086**	**2,175,546**
Operating expenses	(96,523)	(349,722)	(113,946)	(18,928)	(56,86)7	(635,986)
Personnel expenses	(80,579)	(322,319)	(100,053)	(18,192)	(6,569)	(527,712)
Net provisioning for impairment losses	(53,892)	(366,884)	(45,307	(2)	(3,184)	(469,269)
Profit before tax	**160,143**	**128,574**	**163,628**	**(20,232**	**110,466**	**542,579**
Income taxes	–	–	–	–	(90,950)	(90,950)
Profit after tax	**160,143**	**128,574**	**163,628**	**(20,232)**	**19,516**	**451,629**

Contact

Addresses – Raiffeisen Bank International Group 180
Addresses – Raiffeisen Group in Romania 183
Project Team 188



Addresses
Raiffeisen Bank International Group

RAIFFEISEN BANK INTERNATIONAL AG

Austria
Am Stadtpark 9
1030 Vienna
Phone: +43-1-71 707-0
Fax: +43-1-71 707-1715
SWIFT/ BIC: RZBATWW
www.rbinternational.com
ir@rbinternational.com
communications@rbinternational.com

INTERNATIONAL NETWORK

Albania
Raiffeisen Bank Sh.A.
European Trade Center
Bulevardi Bajram Curri
Tirana
Phone: +355-4-23 8 100
Fax: +355-4-22 755 99
SWIFT/BIC: SGSBALTX
www.raiffeisen.al

Belarus
Priorbank JSC
V. Khoruzhey str. 31-A
220002 Minsk
Phone: +375-17-28 9-9090
Fax: +375-17-28 9-9191
SWIFT/BIC: PJCBBY2X
www.priorbank.by

Bosnia and Herzegovina
Raiffeisen Bank d.d.
Bosna i Hercegovina
Zmaja od Bosne bb
71000 Sarajevo
Phone: +387-33-287 100
Fax: +387-33-21 385 1
SWIFT/BIC: RZBABA2S
www.raiffeisenbank.ba

Bulgaria
Raiffeisenbank (Bulgaria) EAD
Nikola I. Vaptzarov Blvd.
Business Center EXPO 200
PHAZE III, floor 5
1407 Sofia
Phone: +359-2-91 985 101
Fax: +359-2-94 345 28
SWIFT/BIC: RZBBBGSF
www.rbb.bg

Croatia
Raiffeisenbank Austria d.d.
Magazinska cesta 69
10000 Zagreb
Phone: +385-1-45 664 66
Fax: +385-1-48 116 24
SWIFT/BIC: RZBHHR2X
www.rba.hr

Czech Republic
Raiffeisenbank a.s.
Hvězdova 1716/2b
14078 Prague 4
Phone: + 420-412 446 400
Fax: +420-234-402-111
SWIFT/BIC: RZBCCZPP
www.rb.cz

Hungary
Raiffeisen Bank Zrt.
Akadémia utca 6
1054 Budapest
Phone: +36-1-48 444-00
Fax: +36-1-48 444-44
SWIFT/BIC: UBRTHUHB
www.raiffeisen.hu

Kosovo
Raiffeisen Bank Kosovo J.S.C.
Rruga UÇK No. 191
10000 Pristina
Phone: +381-38-22 222 2
Fax: +381-38-20 301 130
SWIFT/BIC: RBKOXKPR
www.raiffeisen-kosovo.com

Poland
Raiffeisen Bank Polska S.A.
Ul. Grzybowska 78
00-844 Warsaw
Phone: +48-22-347 7000
Fax: +48-22-347 7001
SWIFT/BIC: RCBWPLPW
www.raiffeisen.pl

Romania
Raiffeisen Bank S.A.
Calea Floreasca 246C
014476 Bucharest
Phone: +40-21-30 610 00
Fax: +40-21-23 007 00
SWIFT/BIC: RZBRROBU
www.raiffeisen.ro

Russia
AO Raiffeisenbank
17/1 St. Troitskaya
129090 Moscow
Phone: +7-495-72 1-9900
Fax: +7-495-72 1-9901
SWIFT/BIC: RZBMRUMM
www.raiffeisen.ru

Serbia
Raiffeisen banka a.d.
Djordja Stanojevica 16
11070 Novi Beograd
Phone: +381-11-32 021 00
Fax: +381-11-22 070 80
SWIFT/BIC: RZBSRSBG
www.raiffeisenbank.rs

Slovakia
Tatra banka a.s.
Hodžovo námestie 3
81106 Bratislava 1
Phone: +421-2-59 19-1000
SWIFT/BIC: TATRSKBX
www.tatrabanka.sk

Ukraine
Raiffeisen Bank Aval JSC
9, vul Leskova
01011 Kiev
Phone: +38-044-49 088 88
Fax: +38-044-285-32 31
SWIFT/BIC: AVALUAUK
www.aval.ua

Addresses
Raiffeisen Bank International Group

LEASING COMPANIES

Austria
Raiffeisen-Leasing
International GmbH
Am Stadtpark 3
1030 Vienna
Phone: +43-1-71 707-2071
Fax: +43-1-71 707-76 2966
www.rli.co.at

Albania
Raiffeisen Leasing Sh.a.
European Trade Center
Bulevardi Bajram Curri
Tirana
Phone: +355-4-22 749 20
Fax: +355-4-22 325 24
www.raiffeisen-leasing.al

Belarus
Raiffeisen-Leasing JLLC
V. Khoruzhey 31-A
220002 Minsk
Phone: +375-17-28 9-9394
Fax: +375-17-28 9-9974
www.rl.by

Bosnia and Herzegovina
Raiffeisen Leasing d.o.o. Sarajevo
Zmaja od Bosne bb.
71000 Sarajevo
Phone: +387-33-254 354
Fax: +387-33-212 273
www.rlbh.ba

Bulgaria
Raiffeisen Leasing Bulgaria OOD
32A Cherni Vrah Blvd., Fl.6
1407 Sofia
Phone: +359-2-49 191 91
Fax: +359-2-97 420 57
www.rlbg.bg

Croatia
Raiffeisen Leasing d.o.o.
Radnicka cesta 43
10000 Zagreb
Phone: +385-1-65 9-5000
Fax: +385-1-65 9-5050
www.rl-hr.hr

Czech Republic
Raiffeisen-Leasing s.r.o.
Hvězdova 1716/2b
14078 Prague 4
Phone: +420-2-215 116 11
Fax: +420-2-215 116 66
www.rl.cz

Hungary
Raiffeisen Corporate Lízing Zrt.
Akadémia utca 6
Phone: +36-1-477 8709
Fax: +36-1-477 8702
www.raiffeisenlizing.hu

Kazakhstan
Raiffeisen Leasing Kazakhstan LLP
Shevchenko Str. 146, flat 1
050008 Almaty
Phone: +7-727-378 54 30
Fax: +7-727-378 54 31
www.rlkz.at

Kosovo
Raiffeisen Leasing Kosovo LLC
Rr. UCK p.n.
10000 Pristina
Phone: +38-1-222 222 340
www.raiffeisenleasing-kosovo.com

Moldova
I.C.S. Raiffeisen Leasing S.R.L.
Alexandru cel Bun 51
2012 Chișinău
Phone: +373-22-27 931 3
Fax: +373-22-22 838 1
www.raiffeisen-leasing.md

Romania
Raiffeisen Leasing IFN S.A.
Calea Floreasca 246D
014476 Bucharest
Phone: +40-21-36 532 96
Fax: +40-37-28 799 88
www.raiffeisen-leasing.ro

Russia
OOO Raiffeisen-Leasing
Smolenskaya-Sennaya 28
119121 Moscow
Phone: +7-495-72 1-9980
Fax: +7-495-72 1-9901
www.raiffeisen-leasing.ru

Serbia
Raiffeisen Leasing d.o.o.
Djordja Stanojevica 16
11070 Novi Beograd
Phone: +381-11-220 7400
Fax: +381-11-228 9007
www.raiffeisen-leasing.rs

Slovakia
Tatra-Leasing s.r.o.
Černyševského 50
85101 Bratislava
Phone: +421-2-59 19-3053
www.tatraleasing.sk

Slovenia
Raiffeisen Leasing d.o.o.
Letališka cesta 29a
1000 Ljubljana
Phone: +386-1-241-6250
Fax: +386-1-241-6268
www.rl-sl.si

Ukraine
LLC Raiffeisen Leasing Aval
9, Stepan Bandera av.
Build. 6 Office 6-201
04073 Kiev
Phone: +380-44-590 24 90
Fax: +380-44-200 04 08
www.rla.com.ua

Addresses
Raiffeisen Bank International Group

BRANCHES AND REPRESENTATIVE OFFICES – EUROPE

France
RBI Representative Office Paris
9-11 Avenue Franklin D. Roosevelt
75008 Paris
Phone: +33-1-45 612 700
Fax: +33-1-45 611 606

Germany
RBI Frankfurt Branch
Wiesenhüttenplatz 26
60 329 Frankfurt
Phone: +49-69-29 921 924
Fax: +49-69-29 921 9-22

Sweden
RBI Representative Office
Nordic Countries
Drottninggatan 89, 14th floor
11360 Stockholm
Phone: +46-8-440 5086

UK
RBI London Branch
Tower 42, Leaf C, 9th floor
25 Old Broad Street
London EC2N 1HQ
Phone: +44-20-79 33-8000
Fax: +44-20-79 33-8009

BRANCHES AND REPRESENTATIVE OFFICES – ASIA AND AMERICA

China
RBI Beijing Branch
Beijing International Club
Suite 200, 2nd floor
Jianguomenwai Dajie 21
100020 Beijing
Phone: +86-10-65 32-3388
Fax: +86-10-65 32-5926

RBI Representative Office Zhuhai
Room 2404, Yue Cai Building
No.188, Jingshan Road, Jida,
Zhuhai, Guangdong Province
519015, P.R. China
Phone: +86-756-32 3-3500
Fax: +86-756-32 3-3321

India
RBI Representative Office Mumbai
501, Kamla Hub, Gulmohar Road,
Juhu
Mumbai – 400049
Phone: +91-22-26 230 657
Fax: +91-22-26 244 529

Korea
RBI Representative Office Korea
#1809 Le Meilleur Jongno Town
24 Jongno 1ga
Seoul 110-888
Republic of Korea
Phone: +82-2-72 5-7951
Fax: +82-2-72 5-7988

Singapore
RBI Singapore Branch
50 Raffles Place
#31-03 Singapore Land Tower
Singapore 048623
Phone: +65-63 05-6000
Fax: +65-63 05-6001

USA
RB International Finance (USA) LLC
1177 Avenue of the Americas,
5th floor
10036 New York
Phone: +1-929-432-1846

Vietnam
RBI Representative Office
Ho-Chi-Minh-City
35 Nguyen Hue Str.,
Harbour View Tower
Room 601A, 6th floor,
District 1
Ho-Chi-Minh-City
Phone: +84-8-38 214 718,
+84-8-38 214 719
Fax: +84-8-38 215 256

Addresses
Raiffeisen Group in Romania

RAIFFEISEN BANK
Head Office
Calea Floreasca 246C
014476 Bucharest
Phone: +4 021 306 10 00
Fax: +4 021 230 07 00
E-mail: centrala@raiffeisen.ro
http://www.raiffeisen.ro

RETAIL GROUP NETWORK

BANAT-CRIȘANA Retail Region

Grigore T. Popa 81
Et.1, Ap. SAD 3
Timișoara
Phone: +4 0256 703 539
Fax: +4 0256 242 281
Contact: Emil Eșanu
emil.esanu@raiffeisen.ro

Retail Group 1
Contact: Florina Iordan
florina-raduta.iordan@raiffeisen.ro

Timișoara Agency
Coriolan Brediceanu 10, corp B
Timișoara
Phone: +4 0256 703 500
Fax: +4 0256 227 659
Contact: Radu Boantă
radu-dalibor.boanta@raiffeisen.ro

Retail Group 2
Contact: Gabriel Jurescu
gabriel.jurescu@raiffeisen.ro

Reșița Agency
Piața 1 Decembrie 1918 nr.4
Reșița, jud. Caraș-Severin
Phone: +4 0255 703 500
Fax: +4 0255 212 278
Contact: Alina-Florentina Popescu
alina-florentina.popescu@raiffeisen.ro

Retail Group 3
Contact: Raul-Dan Marian
raul-dan.marian@raiffeisen.ro

Arad Agency
Andrei Șaguna 1-3
Arad
Phone: +4 0257.703.510
Fax: +4 0257 211 860
Contact: Florica Zdropcea
florica.zdropcea@raiffeisen.ro

Retail Group 4
Contact: Codruța-Liana Trif
codruta-liana.trif@raiffeisen.ro

Bihor Agency
Nufărului 30
Oradea
Phone: +4 0259.703.513
Fax: +4 0259 406 810
Contact: George Silaghi
george.silaghi@raiffeisen.ro

Retail Group 5
Contact: Iuliana Lomonar
iuliana.lomonar@raiffeisen.ro

Deva Agency
Blvd. Decebal, bloc 5 (5A)
Deva, jud. Hunedoara
Phone: +4 0254 703 501
Fax: +4 0254 213 009
Contact: Octavian Lugojan
octavian.lugojan@raiffeisen.ro

Alba Agency
Piața Iuliu Maniu 4
Spațiu comercial II
Alba Iulia
Phone: +4 0258 703 501
Fax: +4 0258 812 328
Contact: Florin-Mihai Magda
florin-mihai.magda@raiffeisen.ro

TRANSILVANIA Retail Region

Harmanului 24, Zonele A, B și C
Brașov
Phone: +4 0268 308.350
Fax: +4 0268 547.911
Contact: Kalman Szecsi
kalman.szecsi@raiffeisen.ro

Retail Group 6
Contact: Norbert-Istvan Kiss
norbert-istvan.kiss@raiffeisen.ro

Satu Mare Agency
Piața Libertății 11
Satu Mare
Phone: +4 0261 703 501
Fax: +4 0261 714 591
Contact: Lavinia-Anamaria Cadar
lavinia-anamaria.cadar@raiffeisen.ro

Zalău Agency
Unirii 19
Zalău
Phone: +4 0260 703 501
Fax: +4 0260 606 320
Contact: Ioan-Adrian Crișan
ioan-adrian.crisan@raiffeisen.ro

Retail Group 7
Contact: Manuela Vlasin
manuela.vlasin@raiffeisen.ro

Bistrița Agency
Liviu Rebreanu 51
Bistrița
Phone: +4 0263 703 500
Fax: +4 0263 217 150
Contact: Sabin-Nistor Moldovan
sabin-nistor.moldovan@raiffeisen.ro

Maramureș Agency
B-dul Unirii 8-10
Baia Mare
Phone: +4 0262 703 500
Fax: +4 0262 226 170
Contact: Ioana-Dana Bîrlea
ioana-dana.birlea@raiffeisen.ro

Retail Group 8
Contact: Oana-Delia Radu
oana-delia.radu@raiffeisen.ro

Cluj Agency
Aviator Bădescu 1
Cluj-Napoca
Phone: +4 0264 703 500
Fax: +4 0264 595 413
Contact: Ioana Plăiaș
ioana.plaias@raiffeisen.ro

Retail Group 9
Contact: Corneliu Dacian Țiplea
corneliu-dacian.tiplea@raiffeisen.ro

Târgu Mureș Agency
Gheorghe Doja 64-68
Târgu Mureș, jud. Mureș
Phone: +4 0265 703 500
Fax: +4 0265 261 009
Contact: Erika-Klara Zolyomi
erika-klara.zolyomi@raiffeisen.ro

Addresses
Raiffeisen Group in Romania

Retail Group 10
Contact: Oligia Dobrin
oligia.dobrin@raiffeisen.ro

Sibiu Agency
Piața Aurel Vlaicu 9
Sibiu
Phone: +4 0269 703 500
Fax: +4 0269 213 297
Contact: Paula Bozdog
paula.bozdog@raiffeisen.ro

Retail Group 11
Contact: Laszlo-Zoltan Benedek
laszlo-zoltan.benedek@raiffeisen.ro

Miercurea Ciuc Agency
Kossuth Lajos 20, bl. 27
Miercurea Ciuc, jud. Harghita
Phone: +4 0266 703 500
Fax: +4 0266 371 779
Contact: Silviu Drăghici
silviu.draghici@raiffeisen.ro

Sfântu Gheorghe Agency
1 Decembrie 1918 nr. 33-37
Sfântu Gheorghe, jud. Covasna
Phone: +4 0267 703 500
Fax: +4 0267 352 600
Contact: Arnold-Csaba Balint
arnold-csaba.balint@raiffeisen.ro

Retail Group 12
Contact: Silvana Boian
silvana.boian@raiffeisen.ro

Brașov Agency
Harmanului 24, Zonele A-C
Brașov
Phone: +4 0268 703 500
Fax: +4 0268 547 791
Contact: Marius Nica
marius.nica@raiffeisen.ro

MOLDOVA Retail Region
Nicolae Bălcescu 2
Buzău
Phone: +4 0238 703 503
Fax: +4 0238 720 522
Contact: Aurel Stoica
aurel.stoica@raiffeisen.ro

Retail Group 13
Contact: Gabriela Pîrvescu
gabriela.pirvescu@raiffeisen.ro

Buzău Agency
Nicolae Bălcescu 2
Buzău
Phone: +4 0238 703 500
Fax: +4 0238 720 523
Contact: Aurora-Camelia Radu
aurora-camelia.radu@raiffeisen.ro

Vrancea Agency
Bulevardul Unirii 28
Focșani, jud. Vrancea
Phone: +4 0237 703 500
Fax: +4 0237 217 460
Contact: Cătălin Pruteanu
catalin.pruteanu@raiffeisen.ro

Retail Group14
Contact: Cornelia Prigoreanu
cornelia.prigoreanu@raiffeisen.ro

Bacău Agency
Dumbrava Roșie 2
Bacău
Phone: +4 0234 703 500
Fax: +4 0234 206 424
Contact: Ionica-Anișoara Sobea
ionica-anisoara.sobea@raiffeisen.ro

Vaslui Agency
Ștefan cel Mare 2-4, bl. 94,
sc. C, D
Vaslui
Phone: +4 0235 703 500
Fax: +4 0235 315 718
Contact: Ciprian Penișoară
ciprian.penisoara@raiffeisen.ro

Retail Group 15
Contact: Mircea-Bogdan Babici
mircea-bogdan.babici@raiffeisen.ro

Iași Agency
Anastasie Panu 31
Iași
Phone: +4 0232 703 500
Fax: +4 0232 215 958
Contact: Cornel-Emanuel Scripcă
cornel-emanuel.scripca@raiffeisen.ro

Retrail Group 16
Contact: Sorin Potolea
sorin.potolea@raiffeisen.ro

Neamț Agency
Piața Ștefan cel Mare 3
Piatra Neamț, jud. Neamț
Phone: +4 0233 703 500
Fax: +4 0233 212 287
Contact: Milica Loghin
milica.loghin@raiffeisen.ro

Retail Group 17
Contact: Dan Jităreanu
dan.jitareanu@raiffeisen.ro

Suceava Agency
B-dul George Enescu 16
Suceava
Phone: +4 0230 703 500
Fax: +4 0230 207 331
Contact: Gabriela-Lorena Șerban
gabriela-lorena.serban@raiffeisen.ro

Botoșani Agency
Calea Națională 68
Botoșani
Phone: +4 0231 703 500
Fax: +4 0231 514 296
Contact: Lăcrămioara Fântu
lacramioara.fantu@raiffeisen.ro

DUNĂREA-MAREA NEAGRĂ Retail Region
Calea Călărașilor 34
Brăila
Phone: +4 0239 606 120
Fax: +4 0239 615 161
Contact: Daniel Lascu
daniel.lascu@raiffeisen.ro

Retail Group 18
Contact: Adriana Țiolan
adriana.tiolan@raiffeisen.ro

Galați Agency
Str. Brăilei 85, corp adiacent
Bl. BR5A, zona A
Galați
Phone: +4 0236 703 500
Fax: +4 0236 460 180
Contact: Daniela Manciulea
daniela.manciulea@raiffeisen.ro

Addresses
Raiffeisen Group in Romania

Retail Group 19
Contact: Otilia Trandafirosu
otilia.trandafirosu@raiffeisen.ro

Tulcea Agency
Griviței 19
Tulcea
Phone: +4 0240 703 500
Fax: +4 0240 516 972
Contact: Amalia Dinu
amalia.dinu@raiffeisen.ro

Brăila Agency
Calea Călărașilor 34
Brăila
Phone: +4 0239 703 500
Fax: +4 0239 615 161
Contact: Marioara Stoian
marioara.stoian@raiffeisen.ro

Retail Group 20
Contact: Angelo-Florin Andrei
angelo-florin.andrei@raiffeisen.ro

Călărași Agency
București 111
Călărași
Phone: +4 0242 703 500
Fax: +4 0242 312 438
Contact: Ileana Flueraș
ileana.flueras@raiffeisen.ro

Ialomița Agency
Str. Chimiei 13
Slobozia, jud. Ialomița
Phone: +4 0243 703 500
Fax: +4 0243 230 877
Contact: Ana Zahiu
ana.zahiu@raiffeisen.ro

Retail Group 21
Contact: Sorin-Adrian Vasiliu
sorin-adrian.vasiliu@raiffeisen.ro

Giurgiu Agency
Str. Vlad Țepeș 20
Giurgiu
Phone: +4 0246 703 500
Fax: +4 0246 211 885
Contact: Elena Osman
elena.osman@raiffeisen.ro

Teleorman Agency
Av. Al. Colfescu 63
Alexandria, jud. Teleorman
Phone: +4 0247 703 500
Fax: +4 0247 317 423
Contact: Mărioara Vidrighin
marioara.vidrighin@raiffeisen.ro

Retail Group 22
Contact: Mariana Barde
mariana.barde@raiffeisen.ro

Constanța Agency
Alexandru Lăpușneanu 163C
Constanța
Phone: +4 0241 703 500
Fax: +4 0241 610 697
Contact: Florina Preduț
florina.predut@raiffeisen.ro

Retail Group 23
Contact: Cecilia-Carmen
Goldan-Gheorghiu
cecilia-carmen.goldan-gheorghiu
@raiffeisen.ro

Trocadero Agency
Alexandru Lăpușneanu 89,
bl. LE 33
Constanța
Phone: +4 0241 703 860
Fax: +4 0241 611 396
Contact: Adrian Iordan
adrian.iordan@raiffeisen.ro

ȚARA ROMÂNEASCĂ
Retail Region
Calea Floreasca 246C
014476, Bucharest
Phone: +4 021 306 10 00
Fax: +4 021 230 07 00
Contact: Sandi Țăranu
sandi.taranu@raiffeisen.ro

Retail Group 24
Contact: Petruț Milu
petrut.milu@raiffeisen.ro

Prahova Agency
Constantin Dobrogeanu Gherea
nr.1A, bl. D & nr.1B, bl. E
Ploiești, jud. Prahova
Phone: +4 0244 703 500
Fax: +4 0244 526 129
Contact: Ancuța Rozeanu
ancuta.rozeanu@raiffeisen.ro

Retail Group 25
Contact: Iulian-Robert Diaconu
iulian-robert.diaconu@raiffeisen.ro

Târgoviște Agency
Blvd. Mircea cel Bătrân 8
Zona A, et.1
Târgoviște, jud. Dâmbovița
Phone: +4 0245 703 500
Fax: +4 0245 606 160
Contact: Ioana-Cristina Tamaș
ioana-cristina.tamas@raiffeisen.ro

Retail Group 26
Contact: Ștefan-Cosmin Cazan
stefan-cosmin.cazan@raiffeisen.ro

Argeș Agency
Craiovei 42
Pitești, jud. Argeș
Phone: +4 0248 703 500
Fax: +4 0248 217 899
Contact: Elena-Cornelia Stan
elena-cornelia.stan@raiffeisen.ro

Retail Group 27
Contact: Cristina-Maria Olteanu
cristina-maria.olteanu@raiffeisen.ro

Vâlcea Agency
Știrbei Vodă 2, bl. T1
Râmnicu Vâlcea, jud. Vâlcea
Phone: +4 0250 703 500
Fax: +4 0250 702 324
Contact: Consuela Perșu
consuela.persu@raiffeisen.ro

Retail Group 28
Contact: Miron Gheorghe Crețan
miron-gheorghe.cretan@raiffeisen.ro

Dolj Agency
Sfântu Dumitru 8
Craiova, jud. Dolj
Phone: +4 0251 703 506
Fax: +4 0251 533 333
Contact: Mihai Iliescu
mihai.iliescu@raiffeisen.ro

Addresses
Raiffeisen Group in Romania

Retail Group 29
Contact: Claudiu Manda
claudiu.manda@raiffeisen.ro

Olt Agency
Basarabilor 2
Slatina, jud. Olt
Phone: +4 0249 703 501
Fax: +4 0249 414 214
Contact: Iulia-Cristina Stavre
iulia-cristina.stavre@raiffeisen.ro

Retail Group 30
Contact: Nicolae Teodorescu
nicolae.teodorescu@raiffeisen.ro

Gorj Agency
Tudor Vladimirescu 17
Târgu Jiu, jud. Gorj
Phone: +4 0253 703 500
Fax: +4 0253 206 324
Contact: Valentina Cioroianu
valentina.cioroianu@raiffeisen.ro

Mehedinți Agency
Blvd. Tudor Vladimirescu 125-127
Drobeta Turnu Severin,
jud. Mehedinți
Phone: +4 0252 703 500
Fax: +4 0252 312 190
Contact: Rareș Meca
rares.meca@raiffeisen.ro

BUCHAREST Retail Region

Grigore Alexandrescu 4A
Bucharest
Phone: +4 021 209 14 35
Fax: +4 021 316 79 03
Contact: Sorin Mirea
sorin.mirea@raiffeisen.ro

Retail Group 31
Contact: Ionuț Mănatu
ionut.manatu@raiffeisen.ro

Bucharest Agency
Grigore Alexandrescu 4A
Bucharest
Phone: +4 021 209 36 14
Fax: +4 021 316 86 63
Contact: Floriana Angelescu
floriana.angelescu@raiffeisen.ro

Retail Group 32
Contact: Raluca Corpăcescu
raluca.corpacescu@raiffeisen.ro

Dorobanți Agency
Piața Dorobanților 1
Bucharest
Phone: +4 021 370 02 60
Fax: +4 021 230 13 90
Contact: Raluca Bradin
raluca.bradin@raiffeisen.ro

Retail Group 33
Contact: Daniela Săvulescu
daniela.savulescu@raiffeisen.ro

Brătianu Agency
Lipscani 90A
Bucharest
Phone: +4 021 370 10 00
Fax: +4 021 319 39 54
Contact: Lucian-Bogdan Ambroze
lucian-bogdan.ambroze@raiffeisen.ro

Retail Group 34
Contact: Bogdan-Valentin Tănase
bogdan-valentin.tanase@raiffeisen.ro

Vitan Agency
Piața Alba Iulia 1
Bucharest
Phone: +4 021 370 30 00
Fax: +4 021 321 00 87
Contact: Cristina Matianu
cristina.matianu@raiffeisen.ro

Retail Group 35
Contact: Gheorghița Baciu
gheorghita.baciu@raiffeisen.ro

Victoria (Smârdan) Agency
Calea Victoriei 21, corp B
Bucharest
Phone: +4 021 370 20 00
Fax: +4 021 310 12 25
Contact: Ioana-Mirela Chirulescu
ioana-mirela.chirulescu@raiffeisen.ro

Retail Group 36
Contact: Claudia Cristea
claudia.cristeau@raiffeisen.ro

Crângași Agency
Calea Crângași 12
Bucharest
Phone: +4 021 370 02 40
Fax: +4 021 220 51 31
Contact: Cristina Onodea
cristina.onodea@raiffeisen.ro

CORPORATE Regional Network

Argeș Corporate Regional Center
Calea Craiovei 42
Pitești, jud. Argeș
Phone: +4 0248 703 500
Fax: +4 0248 217 899
Contact: Ion Popescu
ion.popescu-ag@raiffeisen.ro

Brașov Corporate Regional Center
Harmanului 24, Zonele A-C,
et. P, I și II
Brașov
Phone: +4 0268 308.350
Fax: +4 0268 703.502
Contact: Adrian Nechita
adrian.nechita@raiffeisen.ro

Bucharest 1
Corporate Regional Center
Calea Floreasca 246D, Sector 1
RO-014476 Bucharest
Phone: +4 021 306 20 00
Fax: +4 021 312 01 62
Contact: Laura Ionescu
laura.ionescu@raiffeisen.ro

Bucharest 2
Corporate Regional Center
Grigore Alexandrescu 4A, Sector 1
Bucharest
Tel.: +4 021 209 14.35
Fax: +4 021 316 79 03
Contact: Laura Metea
laura.metea@raiffeisen.ro

Cluj Corporate Regional Center
Aviator Bădescu 1
400082 Cluj-Napoca, jud. Cluj
Tel.: +4 0264 703 500
Fax: +4 0264 595 413
Contact: Magda Palfi-Tirău
magda-eugenia.palfi-tirau@
raiffeisen.ro

Addresses
Raiffeisen Group in Romania

Constanța
Corporate Regional Center
Blvd. Al. Lăpușneanu 163C
900412, Constanța
Phone: +4 0241 703 500
Fax: +4 0241 610 697
Contact: Sorin Suciu
sorin.suciu@raiffeisen.ro

Iași Corporate Regional Center
Str. Ansamblul Palas, Corp E2,
intr. 1, parter
700032, Iași
Phone: +4 0232 703 960
Fax: +4 0232 260 662
Contact: Mihai Iosif
mihai.iosif@raiffeisen.ro

Timiș Corporate Regional Center
Grigore T. Popa 81
Et. 1, Ap. SAD 3
300291 Timișoara, jud. Timiș
Phone: +4 0256 703.539
Fax: +4 0256 242 281
Contact: Emil Eșanu
emil.esanu@raiffeisen.ro

Raiffeisen Bank – Moldova
Representative Office
Alexandru cel Bun 51
Chișinău, Moldova, MD-2012
Phone: +373 22 27 93 31
Fax: +373 22 22 83 81
office@raiffeisen.md

RAIFFEISEN GROUP IN ROMANIA

Raiffeisen Asset Management
Calea Floreasca 246D
014476 Bucharest
Phone: +4 021 306 17 11
Fax: +4 021 312 05 33
Contact: Răzvan Szilagyi
razvan.szilagy@raiffeisen.ro

Raiffeisen Banca pentru Locuințe
Calea Floreasca 246D
014476 Bucharest
Phone: +4 021 233 30 00
Fax: +4 021 232 23 19
Contact: Ileana Cioană
ileana.cioana@railoc.ro

Raiffeisen Leasing
Calea Floreasca 246D
014476 Bucharest
Phone: +4 021 365 32 96
Fax: +4 037 287 99 88
Contact: Bob de Man
bob.de-man@raiffeisen-leasing.ro

Project Team

RAIFFEISEN BANK'S EDITORIAL TEAM:
Corina Vasile, Carmen Dimitruc, Alice Papa

The Romanian and English versions of Raiffeisen Bank's Annual Report are available online at *https://www.raiffeisen.ro/despre-noi/guvernanta-corporativa/rapoarte-anuale*

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